

# FINANCIAL TIMES



**Russia**  
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*Setting up shop again*

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World Business Newspaper

WEDNESDAY JANUARY 24 1996

## N Ireland report to reject UK stand on IRA arms handover

The international commission on Northern Ireland led by former US Senator George Mitchell (left) is expected today to recommend that the IRA should be handed in any of its weapons - but only after Sinn Féin accepts six points of principle. The report will be seen as a call on the British government to drop its long-held stance on decommissioning prior to the start of talks and is understood to call on the IRA to begin giving up arms once negotiations begin. Page 9

**Russian warning on Council:** Russian president Boris Yeltsin warned western leaders that failure to admit Russia to the Council of Europe would be a serious setback for reforms. Page 3; Reform of Russia, Page 2

**Fokker, the Dutch aircraft maker** plunged into crisis by Daimler-Benz's withdrawal of financial support, refused to rule out the possible survival of its core aircraft building operations, either in partnership with a foreign company or with the help of bank financing. Page 11; 800 jobs at risk in Belfast, Page 9

**Paris bourse plans expansion:** The French stock exchange plans to offer trading screens and enhanced communication networks to institutions in the UK as part of a campaign to boost its business in other European countries. Page 14

**Farnell Electronics of the UK** confirmed the £1.85bn (\$2.84bn) takeover of Premier Industrial Corporation of the US to create the third largest electronic component distributor in the world. Page 15; Lex, Page 14

**Euro Disney, the Paris-based theme park operator,** reported a drop in losses to FF957m (\$1.3m) from FF109m for the first quarter following the group's first full-year profits of FF114m for the 12 months to September 30. Page 16; Lex, Page 14; Plus boost Walt Disney earnings, Page 16

**EU drive on public transport:** EU commissioner for transport Neil Kinnock outlined plans to promote better public transport systems in Europe, as part of a campaign to tackle road congestion by reducing the use of cars. Page 4

**Unilever** has become the world's second largest producer of industrial cleaning products with its \$780m (\$699m) purchase of Diversey from The Molson Companies of Canada. Page 21

**Drugs group takes implant charges:** US drugs and healthcare group Bristol-Myers Squibb took a \$950m charge to cover the costs of settling claims over silicone breast implants. Page 15

**US spending up in November:** US consumer spending rose 0.9 per cent in real terms in November, however, disappointing retail reports for the Christmas period indicate that consumer spending growth was slower last month. Page 6

**Astra lifted by US results:** Swedish pharmaceuticals group Astra's shares rose sharply on news that its US joint venture with Merck had boosted sales of the anti-ulcer drug, Losec, by 77 per cent in the fourth quarter of last year. Page 16

**Moodys' drops Japanese bank ratings:** US credit rating agency Moody's lowered the long-term senior debt ratings of Sakura Bank and the Long-Term Credit Bank of Japan, two of Japan's largest banks. Page 18; Bank of Japan to keep low interest policy, Page 8

**Private capital flows to Third World:** Private capital could account for 50 per cent of net financial flows to the world's emerging economies this year, according to an Institute of International Finance report. Page 6

**Banco Bilbao Vizcaya,** the biggest Spanish banking group, announced a 16 per cent increase in attributable net profits last year from Ptas22,838m to Ptas40,018m (\$672m). Page 18

**Former Spanish minister indicted:** Spain's Supreme Court indicted Jose Barrionuevo, a former interior minister and close associate of current prime minister Felipe Gonzalez, on charges stemming from a 1990s "dirty war" against Basque ETA rebels.

**French admit nuclear test leaks:** France said insignificant traces of radioactive material often leaked after its nuclear tests at Mururoa atoll in the South Pacific but denied a report that an official tried to cover up a recent leak.

NEW STOCK MARKET INDICES		NEW DOLLAR	
New York: Dow Jones Ind. Av. 5,195.88 (+23.48)	DAX 1,028.18 (-1.28)	New York: Dow Jones Ind. Av. 5,195.88 (+23.48)	DAX 1,028.18 (-1.28)
NASDAQ Composite 1,028.18 (-1.28)	FTSE 100 3,796.02 (+115.91)	NASDAQ Composite 1,028.18 (-1.28)	FTSE 100 3,796.02 (+115.91)
Europe and Far East	FTSE 100 3,796.02 (+115.91)	Europe and Far East	FTSE 100 3,796.02 (+115.91)
DAX 1,028.18 (-1.28)	FTSE 100 3,796.02 (+115.91)	DAX 1,028.18 (-1.28)	FTSE 100 3,796.02 (+115.91)
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FTSE 100 3,796.02 (+115.91)	FTSE 100 3,796.02 (+115.91)	FTSE 100 3,796.02 (+115.91)	FTSE 100 3,796.02 (+115.91)

NEW US LUNCHTIME RATES		NEW DOLLAR	
Federal Funds 5.75%	FTSE 100 3,796.02 (+115.91)	Federal Funds 5.75%	FTSE 100 3,796.02 (+115.91)
3-mth Term Rate 5.10%	FTSE 100 3,796.02 (+115.91)	3-mth Term Rate 5.10%	FTSE 100 3,796.02 (+115.91)
Long Bond 7.11%	FTSE 100 3,796.02 (+115.91)	Long Bond 7.11%	FTSE 100 3,796.02 (+115.91)
Yield 6.85%	FTSE 100 3,796.02 (+115.91)	Yield 6.85%	FTSE 100 3,796.02 (+115.91)

NEW OTHER RATES		NEW DOLLAR	
UK 3-mth Bank Rate 5.75%	FTSE 100 3,796.02 (+115.91)	UK 3-mth Bank Rate 5.75%	FTSE 100 3,796.02 (+115.91)
UK 10 yr Gilt 10.83%	FTSE 100 3,796.02 (+115.91)	UK 10 yr Gilt 10.83%	FTSE 100 3,796.02 (+115.91)
Germany 10 yr Bond 10.22%	FTSE 100 3,796.02 (+115.91)	Germany 10 yr Bond 10.22%	FTSE 100 3,796.02 (+115.91)
Japan 10 yr JGB 11.15%	FTSE 100 3,796.02 (+115.91)	Japan 10 yr JGB 11.15%	FTSE 100 3,796.02 (+115.91)

NEW MONTH SEA OIL (Average)		NEW DOLLAR	
Brent 15-day Mar 116.80	FTSE 100 3,796.02 (+115.91)	Brent 15-day Mar 116.80	FTSE 100 3,796.02 (+115.91)
WTI 15-day Mar 116.80	FTSE 100 3,796.02 (+115.91)	WTI 15-day Mar 116.80	FTSE 100 3,796.02 (+115.91)

NEW OTHER RATES		NEW DOLLAR	
UK 3-mth Bank Rate 5.75%	FTSE 100 3,796.02 (+115.91)	UK 3-mth Bank Rate 5.75%	FTSE 100 3,796.02 (+115.91)
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Germany 10 yr Bond 10.22%	FTSE 100 3,796.02 (+115.91)	Germany 10 yr Bond 10.22%	FTSE 100 3,796.02 (+115.91)
Japan 10 yr JGB 11.15%	FTSE 100 3,796.02 (+115.91)	Japan 10 yr JGB 11.15%	FTSE 100 3,796.02 (+115.91)

## Granada triumphs in bitter £3.9bn fight for Forte

By Cley Harris, David Blackwell, Scheherazade Doneshich and William Lewis in London

Forte lost its independence yesterday after 60 years as Granada Group won a bitterly contested £3.9bn (\$6bn) takeover bid for the UK hotels and restaurants company. The result, in a bid which incurred £14m in fees and costs, marks a resounding victory for Granada, the media and leisure group, and Mr Gerry Robinson, its chief executive. Forte's luxury hotels, including

the George V in Paris, the Grosvenor House in London and the Meridien chain, will be put up for sale immediately.

But Forte's planned £1.65bn disposal of its Little Chef and Happy Eater roadside restaurants and Travelodge UK budget hotels business to Whitbread, the brewing and leisure group, will not proceed. One possible buyer for the hotels is understood to be Kohlberg Kravis Roberts, the US buy-out specialist.

The defeat was taken hard at Forte's headquarters in High Holborn, London. One adviser said:

Smoke clears after the dust... Page 18  
Background reports and takeover analysis Page 20; Lex Page 14

"There are a lot of people in tears. Don't forget that two-thirds of the Forte executive team came in in the last two years. They came in to do a job, they signed up to run this business and now they can't."

But Sir Rocco Forte, who succeeded his father as chairman in 1992, was dry-eyed and spent the afternoon going floor by floor to thank staff. He said: "I am sad that we are not to have the

chance to complete the work that was under way. We have lost the bid. I do not believe that we have lost the argument."

Sir Rocco, who is likely to gross nearly £75m from shares and options, is expected to re-enter the hotels business in due course, but aides would not be drawn on his immediate plans. He is due to meet Mr Robinson today at Forte's headquarters as the management transition

begins. Forte knew the battle was lost yesterday morning when Ms Carol Galley, vice-chairman of Mercury Asset Management, went in person to tell Sir Rocco the fund manager was backing the Granada bid with most of its 14.6 per cent stake.

"Carol came in at 9.15am to deliver the coup de grace," an adviser said. After receiving the bad news in a five minute meeting, "he saw her out. He was a gentleman to the end".

MAM said: "Forte did put up a very strong defence and we had to make a difficult decision as to

whether Granada would produce more cash returns than new Forte. We thought that new Forte could probably not do as well as Granada."

But Mr Robinson noted: "The bid would have been won without the vote of Mercury." Granada said that by yesterday evening it had counted acceptances representing 86.88 per cent of Forte shares which had been received by the 1pm deadline.

Granada shares fell 18p to 678p yesterday. Forte rose 11p to 364p and Savoy Hotel closed 7p higher at £11.40.

## Bonn fears on growth may prompt jobs plan

Kohl in special session with German employers and unions

By Judy Dempsey in Bonn

The German government has scaled down its forecasts for economic growth this year and expects unemployment to rise above 10 per cent.

The forecasts, to be presented to experts on Friday by Mr Günter Rexrodt, the economic minister, could add to pressure on unions, employers and the government to agree a programme for creating jobs, cutting labour costs and introducing wage restraint to stimulate the economy.

Last night, Chancellor Helmut Kohl was holding a special session with the employers and unions to discuss proposals for wage moderation and job creation. The meeting came as the unemployment rate reached 9.9 per cent and is expected by the government to rise further in coming months.

Meanwhile, Mr Rexrodt Jochims, a Bundesbank central committee member, hinted at a possible further reduction in key German interest rates, which were cut last month. He noted the central bank had reduced key rates on three occasions last year, and he said that "this might not be the end", depending on trends in money supply, which have been below Bundesbank targets.

The report setting out the government's goals says real gross

domestic product will increase by about 1.5 per cent for Germany - 1 per cent in west Germany and between 4 per cent and 6 per cent in east Germany.

This time last year, economic institutes and the government confidently expected GDP in 1996 to grow by between 2.5 per cent and 4 per cent overall, but the government was forced to reduce these forecasts. In the first month Mr Rexrodt was predicting growth of about 2 per cent.

"These figures are disappointing, especially in the east, where unemployment is rising again," a government official said. The government expects west German unemployment to hover between 8.5 per cent and 9 per cent, compared with last year's 8.3 per cent. But in the east, the rate will jump from 14 per cent in 1995 to about 15.5 per cent this year.

Many economists still believe the government's expectations are too high. "We always believe its previous forecasts for 1996 were too optimistic," said Mr Holger Fahrnkung, economist at DBS. "We still think the government's aim of achieving an overall growth of about 1.5 per cent is too high. We are expecting 1 per cent." He said it was highly unlikely the government would this year meet the Maastricht cri-

Continued on Page 14

## Amir denies aiming to kill



Vigil Amir, above left, the 25-year-old Israeli accused of killing prime minister Yitzhak Rabin, admitted in court that he pulled the trigger but said it was "nothing personal". Amir, charged with premeditated murder, denied that he had intended to kill the Israeli leader, whom he shot him twice in the back at a Tel Aviv peace rally on November 4. Photo: Reuters

## Amex accuses Visa of trying to limit rivals

By Emma Tucker in Brussels and Richard Waters in New York

Two of the world's leading credit card issuers went into battle yesterday after American Express accused Visa International of attempting to stop banks that issue Visa cards from offering rival "Amex" cards.

American Express lodged a complaint with the European Commission, arguing that Visa's proposed action to limit the issue of competitor cards would violate EU laws on restrictive practices and limit consumer choice.

The controversy has arisen over a proposed change to Visa's internal rulebook that would force banks to exclude Amex cards from the range of products offered to customers. The proposal is likely to be on the agenda at the next Visa board meeting in March.

Visa, a membership organisation owned and operated by member banks worldwide, said it would not implement a change that would contravene EU law. However, it said it was necessary to "safeguard the collective investment which our 19,000 member banks have made in building an effective international payment card system".

Mr Jürgen Amüller, president of American Express Europe, claimed that "Visa is attempting to eliminate competition in the card marketplace".

"If allowed to go unchecked, there will be nothing to prevent Visa's abusive practices from giving

ing Visa further control over distribution in the European card system," he said.

Although Amex currently markets most of its cards directly, it has recently embarked on a strategy to include banks in the distribution of its cards.

In the past 18 months, the company has courted banks around the world in an effort to expand the number of its cards in use outside the US. Banks in Israel and South Korea as well as two European banks - Banco Comercial Portugues and Alpha Credit Bank - issue American Express cards through joint ventures.

Visa was "surprised" by the filing of the complaint with the Commission.

"We are considering ways of allowing banks to be competitive by offering consumers whatever payment cards they wish, while ensuring that competitors cannot enjoy a free ride on 20 years of international co-operation and investment," Visa said.

A rule similar to the one being proposed by Visa in Europe already exists in the US. However, American Express said there were no plans to challenge it there, as the company had adequate channels to issue and promote the card.

Yesterday Europay International, the company which licenses Mastercard in Europe, said it had different philosophy to Visa. "We think banks should be able to choose which products they offer to card holders. It is a free market," he said.

## AT&T aims for \$1bn-a-year share of UK telecoms market

By Alan Cane in London

AT&T, the largest US telecommunications operator, is planning to enter the UK market in the UK business market with Mercury Communications and an eventual assault on the residential market dominated by British Telecommunications.

Its aim is to secure revenues of \$1bn a year in Britain by the turn of the century. Unravelling its strategy yesterday, it said it would initially offer a range of "intelligent" network services to large and medium-sized businesses which provide international operators with most of their revenues.

This represents an immediate threat to Mercury Communications, the second largest UK operator, and to the handful of other licensed operators which derive most of their revenues from the business market.

Mr Robert Allen, AT&T chairman, said the attack on the UK market was "the first time we

have done anything like this anywhere in the world".

He said: "We are here for the long term. This is not simply an opportunistic idea."

The UK is the first country outside the US where AT&T has acquired a licence, installed facilities and started to offer services. AT&T already offers a range of data transmission services in the UK for which it has more than 300 customers.

It is able to compete on a broad front with BT and other telecoms operators because of the openness of the UK market. It was granted a full operator's licence just over a year ago.

With revenues of about \$30bn last year, AT&T is a giant among US telecoms operators. It has, however, proved comparatively unsuccessful in Europe in the provision of both telecoms hardware and services.

Last year, Mr Allen masterminded the split-up of the company into three independent units, the core telecoms services

operation, the hardware business and a computer company.

AT&T has a strategic alliance with Unisource, a joint venture between four European telecoms operators, called UniWorld. The alliance has still to win the blessing of the Brussels competition authorities.

Mr Allen said yesterday he had no indication when a decision might be announced. AT&T said it did not plan to compete on price in the UK but by forming partnerships with its customers it could offer a consultative approach, flexibility and choice.

Its principal competition in the battle for large multinational customers is Comnet, a joint venture between BT and MCI of the US, and Phoenix, a joint venture between Sprint of the US, Deutsche Telekom and France Telecom.

Understatement masks toughness, Page 9  
Lex, Page 14

## D-NOTICE

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## ANALYSIS: RUSSIA

# The reform of Russia: for worse, for better



John Lloyd, the FT's Moscow correspondent for five years, reported the collapse of the Soviet era and the start of reforms which left the Russian people freer but poorer. Now, with Chechnya in flames, the economy stumbling, corruption rife and fears of a communist victory in June's presidential election, he assesses the former superpower's prospects as it struggles to escape its past.

Thirteen months have passed since President Boris Yeltsin sent the Russian army to crush a three-year rebellion in the southern republic of Chechnya, a rebellion by a gangster regime which no civilised state could tolerate. Now, the uncivilised methods used in the effort to suppress it, and a mixture of incompetence and division over policy in Moscow, have turned the Chechen crisis into a crisis for Russia.

It is a tragedy for the Chechens. And it is a tragedy for the Russians, and it may yet be a crisis for the remaining hopes for reform. The confrontation has driven to the right a government and president already forced to bend before the voters' harsh judgment last month.

Now, poised between the swing to communists and nationalists in the December parliamentary elections and the very large stakes looming in the June presidential elections, it is urgent that we clarify what we think of the state of Russia. And that can only start with the recognition that so much has changed for the better in the past decade.

A simple test is it now likely that Russian authorities would jail a man who calls for democratic reforms? That they would punish nations which gave sanctuary to one of their critics?

These expressions fit authoritarian states such as China, Saudi Arabia and Nigeria. Russia is not of their number - though it was within the past ten years, and gave succour and a political and moral rationale to many who acted likewise. If its rulers do not wholly trust their citizens, at least they have been constrained, or have persuaded themselves, to treat them as citizens, as people with a potential stake in a potential society.

More than 40 parties sought, last month, to win seats in a 450-member parliament. Too many for sensible political choice? Yes, for those who are used to choosing between two or three leviathans slugging it out for the centre ground. But a democrat cannot much object a choice covering a spectrum from anarchist and Stalinist left, to authoritarian and liberal right. Dozens of newspapers and magazines propagandise and exhort every day - too many for rational analysis of the issues? Yes, for those accustomed to a judicious and commercially constrained press, but a pluralist can see little wrong in such a marketplace of views and voices. Neither the party system, nor the press, lacks problems and failings; but neither is under threat of extinction, or even of substantial curtailment.

Talking and writing are no longer dangerous pursuits. Travel is limited by the purse, not by the police. The transmission of information is limited by habit, not (usually) by decree. A host of taboo issues have been opened to public debate: the death penalty, the treatment of women, rights of homosexuals, care of the mentally sick, the need for national service and the persistence of racism. By liberal standards, the situation in all of these is worse than in the rich states. But that is more often because Russia is relatively poor than because it is politically totalitarian.

The economy will, this year, probably grow. It has a long way to go before it recovers the losses of the horrible years from 1989, when it began (officially) to go into rapid fall. In 1992, the economy contracted by 18 per cent and by another 12 per cent in 1993, according to the OECD. The fall has not been as devastating as the figures suggest, nor the decline of living standards as catastrophic. But there is no doubt that there has been shock and a prolonged sense of misery. Yet, from this year, barring political adventurism or unforeseeable disasters, there should be a little, then an accelerating, sense of betterment. The government has not relaxed its rigorous monetary policy in order to tempt the voters to elect the liberals. Inflation, 3.2 per cent last month, remains lower than it has been since serious

reforms began four years ago. Trade remains comfortably in surplus. The central bank is no longer pursuing a course opposite to that of the finance and economic ministries. All's well with the world? Of course not. But it is no longer all wrong.

Four years of a liberal, if erratic, economic policy have allowed a class of business people - already visible in the Gorbachev years, and encouraged even then - to become part of the landscape. They are mostly unlovely, grasping, conspicuous, surrounded by muscle and weaponry, their business practices unethical by the most lax standards and their relationships with government officials necessarily corrupt. But they are increasingly obliged to come to grips with both the domestic and international market, in which demand and choice play larger parts of their daily calculations and strategies. The era of primitive acquisition is not yet over, but it begins to give way to a period in which corporate governance, the need to invest and the development of stable institutions and regulations are recognised as the next challenges.

The great motors of mass consumption and the mass media, which churn over a widening range of the world's societies, fragmenting and reassembling them ceaselessly and feverishly, are beginning to work in Russia. It is neither a consumer society nor a society overwhelmed by media hype, but these germs have entered the social body, and will not be easily countered. Such societies do not resolve all tensions. On the contrary, they create new fields of conflict which shape their politics and economic character. But they tend, over time, to be hostile to wars and the mobilisation of aggression.

It is true that those who scorn the new Russia - including the communists and nationalists who did well at the polls last month - have many good reasons to play. Russia is a very reduced power, as the agony of its engagement in Chechnya makes clear. But in being confined to cramped borders, cut off from large stretches of the Baltic and the Black Seas, unbuffered by allies in central Europe, it has been required to come to terms with its own and others' national identities in ways it never bothered to do before. It is one thing to claim, as many Russians do, that it is absurd that Ukraine and Belarus are separate nations, and that the 20m Russians living outside of the new Russia's borders should still be citizens. It is another to think of something to do about it which is not self-defeating.

**Russia's citizens have the problem of finding a place in a state which no longer pays them the supreme compliment of fearing and suppressing them when they try to tell the truth.**

The members of the Commonwealth of Independent States are artificial nations, say the Russian nationalists; but which nation is not an artificial one with some merely more time-hallowed than others?

Living within its borders, defining itself, is the task before Russia. The great stream of Russia's culture was partly destroyed (especially its religion), partly co-opted, by the communists. Where co-opted, the institutions and traditions to conform with their ideological preferences. They preserved and even enhanced the arts, so that ballet



and musical performance in particular remained pre-eminent; they encouraged the natural sciences and created world class nuclear physicists and mathematicians; they promoted and funded sport so that Russians were always among the fastest, or most graceful, or most competitive in the world. The vigour and longevity of totalitarian rule produced responses of outstanding courage and clarity; the suffering beauty of poet Anna Akhmatova, for instance, the stubborn bearing of witness of Alexander Solzhenitsyn, the patient and engaged humanism of Andrei Sakharov - and the bravery and fidelity of millions less famed, whose memory these three and others, in their different ways, preserved as moral examples to all.

Of course, the stakes seem less heroic now, both in the old, building-of-socialism sense and in the opposition to it. They are humanised. No place any more for the prophet, secular or holy, whose example and faith are required to lighten the darkness. New generations see no sense in such heroics: those in their teens, even in their twenties, have dimmed memories of a totalitarian state, much dimmer than their sharp desire for an Italian bedroom suite or a CD-ROM. Artists, writers and artists of the older generations regret the good old days when there was a common warm feeling of being opposed to and superior to the System: they now feel lost without it. But their successors have the task of engaging with a society not of stereotypes (either communist or anti-communist) but of human and social fragments. They have in common with their counterparts abroad the problem of finding a place in a state which no longer pays them the supreme compliment of fearing and suppressing them when they try to tell the truth. No longer obliged to support the myth if obedient, or to oppose it if dissident, they must simply come to terms with what they understand to be reality.

But the question must be: is reality too much for Russia? It is so much better now by western standards, and by those of a minority of the Russian population. The advances in human rights and freedoms: the development of democratic and market institutions; the freedom of speech. All of these are either reviled as shams by the resurgent political forces and parties, or held on an increasingly tight leash by a presidential administration more ambiguous about its aims and purposes than it has been since 1991.

The old Russia did live by myths, much more so than most nations. The gap between the myth and reality became too wide for the weakening forces of repression to close - and the system collapsed. But the reality which has resulted is terribly harsh. Harsh in a physical sense, but also in a psychological one. It is, apparently, the psychological hardship of coping with a disorienting post-Soviet universe which has reduced the average male mortality age to 59 (compared

to 74 in Britain).

Much of the past four years of economic change had been preparation for large tasks just begun. Though unemployment is rising, rapidly in some areas, it is still below west European levels, but won't be for long. Huge plants have yet to shed workers, though they have shed work. Whole cities in the far north, sustained as in the past by large subsidies, have little work for their citizens and are populated only because their inhabitants have nowhere else to go. Management, many with virtual titles to the plants through privatisation programmes, have done little to change their practices and products. And the institutional investors, mainly the banks, have yet to face up to the challenge of forcing them to change. The trade balance is healthy because oil and gas still make up the bulk (41 per cent) of exports and little of the capital equipment which would be required for a sustained recovery is being imported. But oil production continues to fall, while investment in that sector is still far too small to reverse the trend. Foreign investors would like to be part of that, but continue to be rebuffed. The paltry amounts they have put into a giant economy show they are preoccupied by the uncertainties in the law, taxes and government.

Even the largest achievement is a danger. The reformers still in government point to the macroeconomic successes. Reformers out of government agonise that the cuts they have made to public spending to bring down the budget deficit to International Monetary Fund-approved levels will degrade the health and education services and the public infrastructure to levels from which it will be very hard to recover. One of the largest drains of public money is agriculture. Despite four years of radical reform, the land is still farmed in the same wasteful, slovenly way it has been for decades, while pioneering private farmers, those who have survived, find it harder to preserve their smallholdings from the surrounding hostility of collectivised peasants.

The Russian working class voted last month for the Soviet Union

they had lost. It may be they know they have lost it for ever, and merely wish to punish the authorities while recognising there is no other option. However, it may also be that they think nothing of the sort, and believe the country should be set to rights by a strong hand and will vote communist again in the much more important election, for the presidency, in June. To counter that, the benefits of an improving economy had better come through good and strong. That is not likely, with the ruinous Chechen war still to pay for.

Russia is indeed limited, constrained and cramped; by the new states all about it, which include the three small Baltic countries whose rhetoric and sometimes

**However well Russia's rulers might strive to govern (and sometimes they do not strive all that well), they are faced with a large absence where a national consensus should be.**

actions are at best cold; by its former allies in central Europe who are vociferously suspicious of it; by the rich states of the west and the east which are weary of trying to help Russia and are no longer inclined to be over-helpful; and especially by the US, now the undisputed single superpower and hurtful to national pride because of that. No surprise that the battered westerner Andrei Kozyrev was replaced as foreign minister by the wily foreign intelligence chief and Gorbachev-era survivor Yegor Gerasimov, well enough known in and not over-fearful by Washington,

he has nevertheless been put in the Stalinesque tower which houses the foreign ministry (still with the hammer and sickle embedded into its facade). He will make growing noises at those states which irritate Russia's frayed nerves - and woo or chivy back into the Russian fold those in the CIS amenable to persuasion or bullying.

General Pavel Grachev, the defence minister, went to Ukraine this month to do some growling of his own about the iniquity of the Start I and Start II nuclear disarmament agreements which Russia has signed. US officials say that all real progress on disarmament has stalled. Should this go beyond growling, the uneasy joviality which still surrounds the US-Russian relationship would freeze over. The language of confrontation, with which many on both sides still feel comfortable, would be back. And there would be the heart-wrenching threats of a cold war less stable than the old one.

Imagine, say those Russians who still wish to have a dialogue with the west, what *now* (a US citizen) would feel if the central American states acquired strongly anti-US governments. If Canada began disenfranchising all on its territory who had US ancestry, your gross domestic product was dropping through the floor, your allies were joining the Warsaw Pact, and the native Americans had claimed the oil wells and were paying no tax on their output? And if the presidents of Chase Manhattan and Bank America were assassinated (possibly by each other's bodyguards), Arkansas had declared independence and was paying for it by drug-running and arms dealing... and so on. Uneasy, perhaps?

The parallel may be overdrawn, but it expresses something of the dilemma which unites the Russian people and rulers. It is that, however well the latter might strive to govern (and sometimes they do not strive all that well), they are faced with a large absence where a national consensus should be. There is no agreement as to the borders of the state. There is no agreement as to the fundamental bases of its polity. There is no agreement as to the ground rules of

its economy, no agreement as to who should be its friends, and who its enemies.

In this vacuum, the features of a constitutional, democratic liberal state float above, rather than are embedded within, the nation. The constitution is long and full of many good things, but it is most bitterly attacked by those parties which did best in the December elections. It is hardly seen by the citizens as their shield against an authority which, if less arbitrary than the communist one, is more overtly corrupt. The parties are free to organise and to be elected, but their hold on the national life of the country is weak. The very meaning of Russia itself, which had always had some overarching mission, has disappeared, to be replaced with no agreed concept. Orthodox Christianity, suppressed and corrupted by communism, has revived more in form than in content. Spiritual hunger is filled by charlatanism and obscurantism.

Half a decade ago, we interpreted the events in the Soviet Union as a triumph and a liberation. We have all kinds of vested interests in clinging to that interpretation, even as a growing chorus dismisses such a posture as wishful thinking and naive. Should another reality - which recognises that reaction is already present, that repression already operates, that hostilities have already begun, take its place?

No, Russia is no more doomed to reduplicate for ever an authoritarian past than is Chile or Japan. Mikhail Gorbachev and Boris Yeltsin, though neither would wish to see himself so coupled, have unwittingly conspired to throw open their country in a way none of its rulers had before - in explicit freedom and in friendship. The world all about Russia has broken into it, and Russia which surrounds it with a vigour and an appetite hitherto limited to the aristocratic elite. The pains of each adjusting to the other are very large, most of all in Russia, the more because they have been so suddenly and so unexpectedly felt. But we cannot now "lose Russia" any more than Russia can lose us. It has become, already, part of us and we of it.



EUROPEAN NEWS DIGEST

# Çiller offers to share PM post

Mrs Tansu Çiller, Turkey's caretaker prime minister, yesterday offered to rotate the post with her rival, Mr Mesut Yılmaz, leader of the conservative Motherland party, in an effort to form a coalition after December's inconclusive general elections.

Mr Yılmaz was non-committal and promised to give his answer by Saturday.

The Turkish media proposed a rotating premiership after December's elections gave no party a majority in parliament. Previous attempts to form an alliance between Mrs Çiller's conservative True Path party and Motherland failed. Neither party has explained how the rotating premiership would work. Although both hold almost the same number of seats in parliament, a coalition would still require only 268 seats, eight short of a majority. The Islamist Refah party has the most MPs, but last week gave up trying to form a coalition with a secular party.

Political commentators expect coalition talks to continue making slow progress, even though Turkey has been without a government for a month.

John Barham, Ankara

# Czechs apply to join the EU

The Czech Republic yesterday applied to join the European Union. Prime Minister Václav Klaus submitted the country's application to his Italian counterpart, Mr Lamberto Dini, during a visit to Rome.

Italy currently holds the rotating EU presidency. In a statement announcing the application the government in Prague described it as "an event of unparalleled historical importance", and said it was committed to economic liberalisation and European integration.

Mr Klaus has stressed the importance of beginning the process of EU expansion, although no firm date has been fixed for when the first group of central European countries will join. The government believes the Czech Republic is at the head of the queue of new members, given its record of economic reforms. Mr Klaus has also spoken of creating "a Velvet Revolution in Brussels". In a recent interview he said the Czech Republic wanted to see a Europe of nation states rather than the federal Europe being promoted by some member states.

Václav Klaus, Prague

# EU to get tough on veal crates

The European Commission is today expected to agree proposals for tough new restrictions on the use of veal crates for rearing calves, with an eventual ban on the practice by 2000.

The proposals, which follow intense campaigning by British and other animal rights groups, are expected to run into fierce opposition from veal-producing countries, notably France and Italy, when they are considered by agriculture ministers. "It will be a long and difficult negotiation," an EU official said.

The proposals, tabled by Mr Franz Fischler, the commissioner for agriculture, will include a ban on building new crates or refurbishing existing ones after 1998 for calves over eight weeks. New pen sizes will also be proposed to allow enough space for calves to turn round and lie down with their legs stretched out.

Commission proposals for a ban on crates, tabled in 1993, were watered down by agriculture ministers. The eventual 1991 directive on protection of calves set minimum standards but fell short of a ban.

Caroline Southey, Brussels

# Spanish ex-minister faces charge

A Spanish supreme court judge is expected to issue formal charges today against former Socialist interior minister José Barrionuevo for alleged complicity in a kidnapping in the south of France in 1983.

The move, the latest development in the so-called Gal case over a "dirty war" against suspected Basque terrorists, comes as a further serious embarrassment to the government of Mr Felipe González, facing elections in less than six weeks.

It comes after a decision by Socialist organisers in the Madrid region to include Mr Barrionuevo in the party's list for the election, despite the accusations against him. Judge Eduardo Moner set bail of Ptas5m (\$120,000) for Mr Barrionuevo earlier this month after former government and party officials accused him of authorising the detention of a man who had been captured by mistake in an operation against a suspected member of Eta, the Basque separatist organisation.

David White, Madrid

# Internet beats French book ban

The memoirs of the long-standing doctor to former French President François Mitterrand were yesterday evening released on to the Internet computer-based information network.

The action circumvents the ruling from a Paris court last week that *The Great Secret*, written by Dr Claude Gubler, should be withdrawn from sale less than two days after it was released because it marked an invasion of privacy of the late president's family.

Plon, the publisher, has appealed the legal judgment, but also yesterday condemned the unauthorised distribution of its book on the Internet.

Mr Pascal Barbraud, head of computers in an Internet café in the town of Besançon, has evaded the ruling by computer-scanning the book. "We find this ban ridiculous... we are not in a banana republic," he said.

Andrew Jack, Paris

# Yeltsin raises the stakes for Council of Europe

By Chrystia Freadland in Moscow

Russian President Boris Yeltsin yesterday raised the political stakes for tomorrow's meeting of the Council of Europe, warning western leaders that failure to admit Russia would be a serious setback for reform.

At home, Mr Yeltsin's claim to be the leader of Russia's democratic reforms came under fire this week as some of the country's most prominent liberal politicians publicly severed their ties with the president following a harsh cabinet shuffle and a stepped-up offensive against separatists in the break-away Chechen republic.

But with characteristic boldness, Mr Yeltsin yesterday told European leaders that rejecting Russia's application for membership at tomorrow's session of the Council of Europe would mean a rejection of Russian democracy.

In a public statement, Mr Yeltsin insisted that a refusal to admit Russia "would be interpreted as a refusal to support those who are fighting for democratic principles and democratic institutions in Russia".

The Russian president has regularly countered western

A Chechen rebel commander who escaped the siege village of Pervomayskoye said yesterday he was ready for a 10-year fight against Russian and would never submit to Moscow. Renier reports from Moscow, Salman Raduyev, who had led a band of more than 200 fighters in a cross-border raid into Russia's Dagestan region, was speaking as Chechen rebels delayed plans to free up to 50 civilian captives.

criticism of his policies with the warning that, objectionable though some of his actions might be, Mr Yeltsin is preferable to his communist and nationalist opponents. Yesterday's statement implicitly repeats this contention, but, in view of the political shifts in Russia over the past few weeks, it could be a dangerous gamble for the president.

Mr Yeltsin's public appeal is likely to transform the decision of the Council of Europe, a largely symbolic body which has already admitted many former Communist states, into a high-profile test of the west's faith in Mr Yeltsin's government.

The Council suspended Russia's application for membership for seven months last year, in protest at Moscow's brutal effort to subdue Chechen separatists. The assembly lifted the ban last September after a tentative ceasefire had been agreed between Russian forces and Chechen rebels.

But Russia intensified its attack on Chechen separatists this month and Mr Yeltsin yesterday reaffirmed his commitment to take a hard line in the breakaway region.

In a speech to the upper house of parliament, Mr Yeltsin vowed that the Russian government would continue a policy of "tough suppression of bandit and terrorist bases and the liquidation of armed gangs and gang leaders".

He made no apology for this uncompromising stance in his appeal to the Council of Europe. Instead, he warned European politicians that failure to admit Russia to the assembly would offer tacit support to those who seek to resolve the Chechen problem with savage, terrorist methods.

Mr Yeltsin's gambit has already won the backing of some European leaders. On a visit to Moscow this week, Mr Hervé de Charette, the French foreign minister, said he hoped the Council of Europe would vote to admit Russia.

But the Kremlin's severe policy in Chechnya yesterday brought down a new hail of attacks from domestic critics. Mr Gregory Yavlinsky, whose Yabloko party is one of the main blocs in parliament, began collecting signatures for a motion of no confidence in the government.

# Dilemma on Bosnian war crimes

By Laura Silber in Belgrade and Bruce Clark in London

Serbia's President Slobodan Milosevic and the western governments with troops in former Yugoslavia have become uneasy partners in the grimy enterprise of searching for mass graves, and evidence of war crimes, in Bosnia.

This odd partnership was undermined last weekend when Mr John Shattuck, the US human rights envoy, toured the area of Srebrenica, where thousands of Muslims are believed to have been killed by the Serb forces who took the town last July.

Mr Milosevic assured Mr Shattuck he could go anywhere he liked, and gave him an escort of Serbian security men. Diplomats say the police did not object when the US team made frequent changes of itinerary.

Mr Shattuck, in Sarajevo yesterday for talks with Bosnia's Muslim-led government, disclosed that he had received promises of help on other fronts from the Serbian leader. In particular, Mr Milosevic had promised to press the Bosnian Serbs, his erstwhile protégés,



Milosevic has assumed unlikely role of war crimes investigator

to release all remaining Muslim prisoners.

This promise, combined with US threats to hold back economic and military aid, helped convince a reluctant Bosnian government to promise further releases of Serb prisoners in accordance with the Dayton peace agreement.

But the prominence of Mr Milosevic, particularly in the

unlikely role as co-investigator of war crimes, has placed the US government in a dilemma familiar to all governments which have tried regulating the conflict in ex-Yugoslavia.

As a regional policeman, Mr Milosevic may still be indispensable, but open co-operation with the original instigator of nationalist hatred in Yugoslavia could appear to

Mr Michael Portillo, UK defence minister, said yesterday he accepted US proposals to arm and train Bosnia's Muslim-led army, as long as Nato forces there did not get involved, our Foreign Staff write.

On a visit to Washington, Mr Portillo said that "a lot has moved on" since the time when Britain opposed military help to the Bosnian government on grounds that it would fuel the war and endanger UK peacekeepers.

"I accept that arming and training of the Bosnian Muslims will be necessary too," said the minister, while adding that any assistance programme must be "of arms length" from Nato's peace implementation force.

comprise Nato's moral purpose.

Nato's civilian institutions have been sensitive in recent days to charges that the Bosnia mission is not living up to its own ideals.

In practice, diplomats say, this means that western military commanders have been firmly told by their civilian bosses that they must pay

attention - and be seen to pay attention - to mass graves and evidence of war crimes.

Nato officers initially stressed, when the issue of mass graves resurfaced in the media two weeks ago, that neither the protection of such sites, nor gathering data about them, lay within their formal remit.

Since then, under strong pressure from Nato governments and public opinion, the alliance has sent a different message: investigators from the International War Crimes Tribunal (IWCT) will be escorted to alleged mass graves by Nato troops, and Nato will also provide aerial surveillance.

Apart from underlining Nato's moral purpose, the gathering of detailed information about war crimes, which could form the basis of further indictments at the IWCT, has proved to be a vital source of leverage over all the Bosnian factions. In the words of one western diplomat, the steady release of information about mass graves will "maintain pressure on the (Bosnian) Serbs and show the (Bosnian) Muslims that justice will be done".

# Ukraine 'diverted' Chernobyl funds

By Matthew Kaminski in Kiev

The pressure group representing victims of the Chernobyl nuclear accident has accused the Ukrainian government of diverting money from a fund set up to help those who suffered when a reactor exploded in April 1986.

The Ukrainian Chernobyl Union, set up in 1991 and claiming 420,000 members, says that the government diverted 12,000bn karbovanets (\$60m) to cash-strapped government programmes, and that many of the 8.5m beneficiaries of

the fund were not paid the compensation, early pensions and special medical care to which they were entitled.

It is also warning that the level of benefits was being threatened by proposed budget cuts in 1996.

Chernobyl victims have been an almost sacrosanct lobby group in a country physically and emotionally scarred by the accident. The group's complaints are echoed by many trade unions and pensioners who say that entitlements are sometimes paid late and often not at all.

Mr Yuriy Andreyev, president of the Chernobyl Union, has alleged that a pay rise for the armed forces in November was underwritten by 8,000bn karbovanets from the fund, with a further 4,000bn karbovanets taken to help resettle Crimean Tatars and cover the Russian gas import bill.

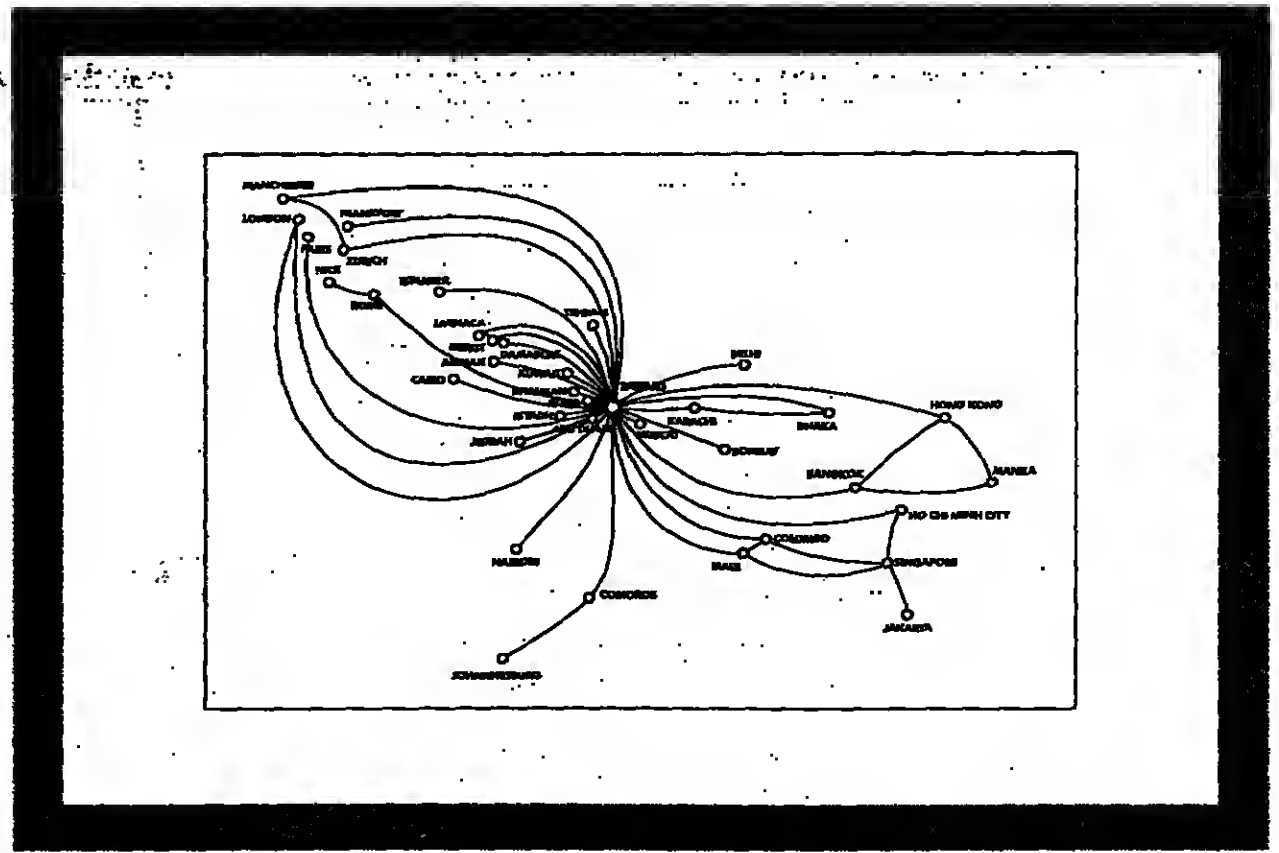
"When the army is angry, the government trembles," he said. "No one notices the Chernobyl sick."

Among the 8.5m victims are 350,000 who lived and worked in the Chernobyl zone after the accident, including those

who put out the fire and sealed the stricken reactor, 120,000 people who were resettled and 900,000 children exposed to radiation.

Mr Andreyev says the Chernobyl Union has had no response from the Kiev government to its appeals to replenish the fund, which was supposed to receive 117,000bn karbovanets from the government last year. Mr Volodymyr Holosha, minister for Chernobyl, said mistakes had been made, which he attributed to bookkeeping problems, but said all benefits would be paid.

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NEWS: EUROPE

# Uncertainty could derail monetary union, Europe's financial establishment warns Banks appeal for news on Emu schedule

By Lionel Barber and George Graham in Brussels

Leading European bankers yesterday appealed to EU political leaders to give a convincing signal that the single currency would be launched on schedule on January 1 1999.

Amid creeping doubts about the feasibility of the European monetary union timetable, notably in France and Germany, members of Europe's financial establishment warned that further uncertainty could derail union.

Their warning came at a European Commission-sponsored conference in Brussels aimed at laying the groundwork for a future campaign to sell the Euro, the planned single currency, to a sometimes sceptical public.

Mr Francois Pericot, head of Unice, the European employers federation, said it was no time to be faint-hearted. "We must not hesitate. There is no point in debating things that have already been decided."

Mr Pierre Simon, executive at Compagnie Bancaire, the French financial services group, said European banks would have to start investing heavily 18 months before they knew which countries will join Emu, most likely in early 1998.

"We face a political risk. The public authorities need to answer the questions that will define monetary union," he said.

Despite fears that the conference would degenerate into a talking shop, Commission officials said a clear message had emerged in favour of step-

ping up the pace of communication, first to the banking sector and then to the consumer.

The Commission set up the conference to keep up Emu momentum after last month's EU summit, which agreed on a phased switchover to the Euro between 1999 and 2002.

But the economic slowdown in Europe has cast doubt on the Emu timetable, amid signs that the debate on the single currency is becoming more contentious. Several speakers said there was a risk of giving the impression that monetary union can only be achieved at the price of deflation and rising unemployment.

Last Monday night, Mr Jean-Luc Debaene, Belgium's prime minister, gave a veiled warning to the German Bundestag that the fight against

inflation could be taken too far.

"Nobody has anything to gain by a monetary overkill... Today, inflation in many countries is under control or de facto non-existing. A policy of competitive disinflation may at some time be as disruptive as a policy of competitive devaluation."

Mr Jacques Delors, former president of the European Commission, called for greater attention to employment in the Emu project. It had been a mistake to leave out employment criteria and focus solely on inflation, budget deficit reduction and exchange rate stability in the Maastricht treaty's provisions for Emu.

Consumer groups represented at the Brussels conference called for reassurances that prices would not be "rounded up" once national currencies

were replaced by the Euro. Bankers said it was vital to have greater clarity on the continuity of savings and mortgage contracts after the changeover.

But they also expressed worries that the Commission and the European Monetary Institute - the precursor of a European Central Bank - would pressure financial institutions to use the Euro in the transition phase between 1999 and 2002.

Under the scenario agreed at the Madrid summit last month, the ECB will conduct a single monetary policy among countries participating in Emu. The Commission hopes that the bulk of interbank transactions will take place in Euro, but Euro-notes and coins will not be available to the consumer until mid-2002.

# Paris ministers cooler on plan for new tax

By David Buchanan in Paris

The French government yesterday softened its commitment to tax France's generous system of family allowances for the first time, in another apparent retreat on its controversial welfare reforms that have taken a battering from unions, lobbyists and its own backbenchers.

Taken together, the government's tactical swerves in recent days risk undermining its goal of reducing the welfare system's deficit from FF161bn (\$12.3bn) last year to FF17bn this year and turning it into a FF11bn surplus next year.

This planned turnaround is considered essential to the government's strategy of bringing the overall public deficits down to 3 per cent of national output by 1997 in time to qualify as a founder-member of the European single currency.

Last November Mr Alain Juppé, prime minister, proposed to start levying tax next year on this year's family allowances - a form of state benefit granted to families with children - to raise an extra FF10bn net.

Yesterday ministers indicated that the tax plan would still go ahead if it won union support at a "social summit" on family policy this spring. But yesterday, the CFTC union, the one federation largely absent from December's anti-government strikes, repeated its opposition to the plan.

Even in the unlikely event of union acquiescence, it might have to await the general overhaul of French taxes now postponed until later this year or next. Mr Jacques Barrot, the

social affairs minister, claimed yesterday the taxing of family allowances "is not being abandoned, but merely spread out over time".

Mr Juppé himself told the National Assembly he was concerned that taxing allowances might bring poorer households into the income tax net - at present covering only half of French households - and admitted he could only prevent this by raising tax thresholds in the context of a general fiscal reform.

Last week, Mr Juppé gave in to pressure from doctors by abandoning the taxing of family allowances by agreeing to pay a FF1.4bn increase in doctors' own social security charges into a medical retraining fund rather than to help plug the health insurance deficit.

All these latest concessions have an immediate price tag, in contrast to Mr Juppé's more spectacular December retreat on his plans to reform public sector pensions whose financial impact would only have been felt over several years.

Mr Juppé's deficit-cutting strategy is also under pressure from many of his backbenchers, who are against the so-called RDS levy to repay past welfare debt, and from the need to take new measures to boost flagging growth.

These measures, expected to include more incentives for house-building, consumer spending and small businesses, are likely to be announced next week, in tandem with separate measures by the German government to give them at least an aura of trans-Rhine coordination in the face of a common economic slowdown.

# Polish premier set to resign over KGB links

By Anthony Robinson and Christopher Robinson in Warsaw

Mr Jozef Oleksy, the Polish prime minister, looks likely to resign whatever the decision of the Polish military prosecutor today on whether he should be investigated over his friendship with a senior KGB officer.

Mr Oleksy has already conceded that continuing his friendship with Mr Volodya Alganov, a Soviet diplomat, after he had been advised by the Polish security forces that his friend was a senior KGB officer, was unwise. But he argued that his friendship was harmless and the affair had been raised by Mr Lech Walesa, the outgoing president, and his interior minister as revenge for losing the presidential election last month.

However, initial support for the embattled prime minister from the new president, Mr Alexander Kwasniewski, and senior members of the ruling Democratic Left Alliance (SLD) appears to have waned in the face of increasing public disquiet over the accusations and a determined effort by the opposition to bring down the SLD and Peasant party (PSL) coalition government.

Mr Leszek Balcerowicz, leader of the Freedom Union (UW), the former Solidarity party, has been trying to detach the PSL from alliance with the SLD and form a new centre-right coalition which would push Mr Oleksy's party into opposition and isolate Mr Kwasniewski, who like his prime minister is a former communist.

This offer from the opposition has strengthened the hand of Mr Waldemar Pawlak, the Peasant party leader, who has been trying to ensure Mr Oleksy is replaced by a prime minister from his own party and reinforces its power within the coalition. Failing such an agreement, Mr Pawlak signalled yesterday that he was ready to enter formal talks with the Freedom Union about forming a new coalition or face early elections.

The SLD is resisting these demands, confident in opinion polls which indicate that neither the party nor the coalition government has yet suffered from the crisis over Mr Oleksy.

The coalition potential damage and prevent the need for a disruptive early general election campaign it is taking soundings about a possible replacement for Mr Oleksy from within its own ranks.

Meanwhile, Mr Oleksy continues to protest his innocence. The military prosecutor gave the Polish security forces a month to find the additional evidence required before deciding whether to go ahead with any formal investigation of the charges.

He is expected to announce his decision today. Yesterday Mr Grzegorz Kolodko, the non-party finance minister, urged Poland's politicians to find a quick solution to the crisis without the need for elections which, he fears, would disrupt plans for a radical reconstruction of the social security system and a recently approved budget which limits the budget deficit to 2.8 per cent of GDP.

# Irish budget programme for welfare spending

By John Murray Brown in Dublin

The Irish government yesterday launched a programme of social welfare spending aimed at the long-term unemployed in its 1996 budget, ignoring business appeals to curb spending.

With the economy growing at 5.5 per cent in 1995, faster than any other EU country, the three-party ruling coalition used unexpectedly high tax returns for 1995 and lower debt service payments to target the low-paid and jobless.

Ireland is one of the biggest spenders on active labour programmes in the Organisation for Economic Co-operation and Development.

The measures include a recruitment subsidy for

employers to take on up to 5,000 people who have been out of work for three years or more. Those taking work will retain their right to free prescriptions and other medical benefits for three years after taking up employment. Other measures include higher allowances for children and those living alone.

Mr Charlie McCreery, opposition Fianna Fail finance spokesman said: "All the fruits of economic growth have gone into extra spending."

The budget envisages an exchequer borrowing requirement of 15729m (\$1.2bn), the equivalent of 2 per cent of GNP. Current expenditure is set to grow by 2.5 per cent in 1996 to 1515.14bn. Capital spending is to increase by 6

per cent to 123.2bn.

The finance minister, Mr Ruairi Quinn, said he also wanted to reward those at work, announcing an increase from 1250 to 1280 a week to the threshold where employees start paying national insurance contributions, resulting in gains of 121.65 a week for full-rate contributors.

The standard rate of income tax band is being widened by 121,000 to 1218,800.

The government forecasts GDP growth of 5 per cent in 1996, compared with the estimated 5.5 per cent for the current year, and domestic demand and consumer spending growth of 4.5 per cent. It expects exports to grow by 9.5 per cent and unemployment - currently at 280,000 or 12.0 per cent - to fall by 10,000



Quinn rewarding workers

and the number of those in work to rise by 30,000.

In an gesture to small businesses, the minister unveiled plans to cut corporation tax from 38 per cent to 30 per cent, for the first 150,000.

To meet criticism of lack of action to tackle rising crime, Mr Quinn announced tax relief for old people installing alarm systems.

# Brussels ready to challenge road congestion

By Caroline Southey in Brussels

Mr Neil Kinnock, the EU commissioner for transport, yesterday outlined plans to promote better public transport systems in Europe, as part of a campaign to tackle road congestion by reducing the use of cars.

The OECD has estimated that road congestion has cost the EU Ecu20bn (\$152bn), or 2 per cent of GDP. The Commis-

sion estimates that this is four times more than the total expenditure on public passenger transport across the EU.

Mr Kinnock said over-dependence on the use of cars had put a "huge strain on the transport system in terms of pollution, accidents and congestion", and that greater use of public transport could ease some of these pressures.

Car ownership in the EU rose from 232 per 1,000 people to 435 per 1,000 between 1975 to

1995, while vehicle speeds in big EU cities fell by 10 per cent during the same period. In London transport speeds have fallen below 18km/h since 1971.

The commissioner stressed he was not launching an "anti-car" initiative, although he hoped "public transport will increasingly offer significant advantages over the private car for many journeys". The intention, he said, was to "make the freedom to travel by private transport more mean-

ingful" by reducing congestion.

He said the funding, managing and organisation of transport systems remained the preserve of governments. The Commission's role was to highlight best practices across Europe and to use EU funding and legislation to promote public transport programmes.

He said the Commission was "neutral" on the question of public ownership of transport systems, although it was foolish for governments to take

"ideological approaches" which did not take into account the needs of consumers.

Mr Kinnock said the Commission would encourage governments to copy "innovative and imaginative schemes" in other EU countries. Examples cited in the Commission's first transport policy document, released yesterday, include train-taxi tickets issued in the Netherlands which allow travellers to transfer to a waiting taxi for the final leg of a jour-

ney and the metrolink tram system in Manchester which has replaced over 1m car journeys a year in the city centre.

The Commission also intended to use the Trans-European Network projects to give funding priority to transport systems which linked up with local networks. In addition Ecu240m had been set aside from the Commission's research and development fund to investigate ways to improve transport networks.

# Lithuanian bank crisis claims central bank chief

By Chrystia Freeland in Moscow

Last month's banking crisis in Lithuania claimed another political victim yesterday when parliament accepted the resignation of Mr Kazys Ratkevicius, chairman of the central bank.

The resignation had been demanded by Mr Algirdas Brazauskas, the Lithuanian president, who accused the central bank chief of exercising "inefficient" control over the commercial banking sector.

However, Mr Ratkevicius said his ability to contain the crisis had been constrained by the limited powers of the country's central bank, which does not have the funds to bail out struggling commercial banks.

Mr Ramasis Vaitiekunas, the interior minister, submitted his resignation over the weekend. He has been criticised for ordering police raids against the chief executives of the two suspended banks and for withdrawing some \$2,000 from his personal account in Innovation Bank just a few days before it was shut down. However, some politicians suspect that the sensitive information he controls as interior minister may still allow him to survive the political crisis.

Supervision of commercial banks has been the Baltic state's dominant political issue since the suspension of two of the country's biggest banks last month. In late December Lithuanian regulators closed down Litimpex Bank and Innovation Bank and arrested the managers of the two banks on fraud charges. The closure has shaken public confidence in the banking sector and prompted many Lithuanians to withdraw their savings from commercial banks.

Many of the former communist states in eastern Europe have suffered similar financial shake-outs during their transition to market economies with stable national currencies and moderate rates of inflation. Latvia, Lithuania's northern neighbour, underwent a banking crisis earlier last year.

Although the tough moves of the Lithuanian authorities have been praised by western economists, who said the government's actions helped prevent a deeper crisis, the financial turmoil has provoked fierce public criticism which the Lithuanian leadership has sought to appease with a round of political dismissals.

The president called yesterday for swifter government solutions to the banking crisis and Mr Adolfas Slezevicius, the prime minister, warned that the turmoil had depressed budgetary revenues and would lead to a delay in the payment of January pensions.

In an address to parliament, Mr Brazauskas also urged his constituents and local government officials not to over-react to the banking crisis.

"This is not a global tragedy," Mr Brazauskas said, in an effort to calm the country's battered financial markets. "There are problems and they will be resolved."

Mr Slezevicius also tried to pour oil on troubled waters. He told parliament that government officials were working with economists from the IMF and the World Bank to prepare a programme to repay depositors whose accounts were frozen last month and to revive the ailing banking sector.

Parliament named Mr Jonas Nauras as acting chairman of the bank. Mr Nauras has been the deputy chief of the bank since 1988.



The problem: road congestion costs the EU dear



One possible solution: a Manchester tram

# Economic gloom bodes ill for Swedish jobs

Strength of the krona means unemployment may be a fact of life, writes Christopher Brown-Humes

Fresh from celebrating its best economic performance for more than 10 years last year, Sweden is suddenly bracing itself for much slower growth in 1996.

The gloomier mood, which contrasts with relative optimism as recently as two months ago, reflects a sharp rise in the krona, weaker demand in the country's main European export markets, and a subdued domestic economy.

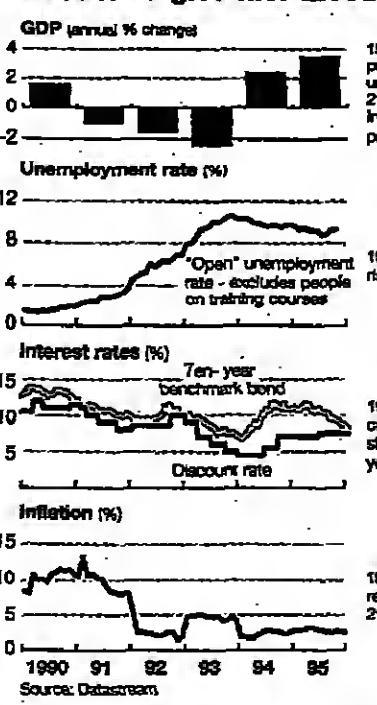
It bodes ill for the Social Democratic government's priority of cutting unemployment, which has ballooned to 12 per cent in the last few years.

Mr Leif Pagrotsky, chief aide to Mr Goran Persson, the finance minister, estimates growth will be less than 2 per cent in 1996, considerably below the finance ministry's prediction of 2.7 per cent last November. "The big difference is the stronger krona," he says.

But earlier this month there was an even gloomier prediction from the Federation of Swedish Industries, which forecast that GDP growth would be as low as 0.9 per cent in 1996. This would be an abrupt reversal on 1995, when the economy grew by 3.5 per cent, and could leave the country with the lowest growth rate in the Organisation for Economic Co-operation and Development.

Mr Per Wijkman, the federation's chief economist, says Sweden faces two main problems in 1996. One is weaker export growth caused by lower demand in Sweden's main European export markets, where increasing signs of economic slowdown are compounded by reduced competitiveness because of a 10 per cent strengthening in the krona since the middle of last year.

## Sweden: a gloomier mood



1996: Finance Ministry Nov 95 projections: 2.7%; Jan 96 unofficial estimate: less than 2%; Federation of Swedish Industries Jan 96 prediction: possibly as low as 0.9%

1996: analysts fear numbers will rise again this year

1996: analysts expect series of cuts which could lower short-term rates to 7% by year-end

1996: central bank has reasonable chance to achieve 2% target over coming months

by a quarter of a percentage point to 8.66 per cent, its first reduction in nearly two years. Analysts expect this to be the first in a series of cuts which could lower the rate to about 7 per cent by the year's end.

One of the reasons the bank felt able to change tack, after a

series of increases over the previous 18 months, was the more benign inflation outlook. After peaking in mid-1995 at just over 3 per cent, inflation has fallen to around 2.6 per cent and is heading downwards. This means there is a reasonable chance that the bank will

achieve its target of a 2 per cent inflation rate in the coming months.

Nevertheless, lower growth could unsettle the government's efforts to reduce the state's big debt burden and eliminate its budget deficit in line with its plans to qualify for economic and monetary union at the end of the decade.

Preliminary calculations show that the government's gross debt as a ratio of GDP was stabilised last year at around 84 per cent - a feat it achieved ahead of schedule but still well outside the Maastricht target of 60 per cent.

The budget deficit has also been falling sharply because of a series of tax increases and savings worth a total of SKr115bn (\$17.1bn), 7.5 per cent of GDP, and is expected to be eliminated by 1998.

The Progress has helped rehabilitate Sweden in financial markets, leading to a strong rise in the krona and a sharp fall in bond yields in the last six months.

But optimism about the state of Sweden's finances was dented this week when Moody's, the US rating agency, warned that the country could well be forced to make further savings to eliminate its "still large" budget deficit.

"Should the debt levels only be able to be stabilised, not reduced, at the peak of the business cycle, the next economic downturn will bring a renewed ballooning of budget shortfalls and debt stocks. Further reductions in social welfare programmes are likely to be necessary, which has not yet been accepted widely by the population," it said.

If growth does slow and further cuts are needed, it can only complicate the task facing Mr Persson, who is set to become prime minister in March, as he has talked of increasing some welfare benefits again from 1998 to offset some of the recent pain.

It will also make the task of cutting unemployment much more difficult. Sweden has struggled to cut its jobless total from 14 per cent to 12 per cent in the last two years, and some analysts fear numbers will rise again this year.

For a country that was used to unemployment of well under 5 per cent until the 1980s, and which has prided itself on its training programmes to deal with the problem, this would be bad news indeed. It suggests that Sweden has joined the league of European nations where permanently higher levels of unemployment are now a fact of life.



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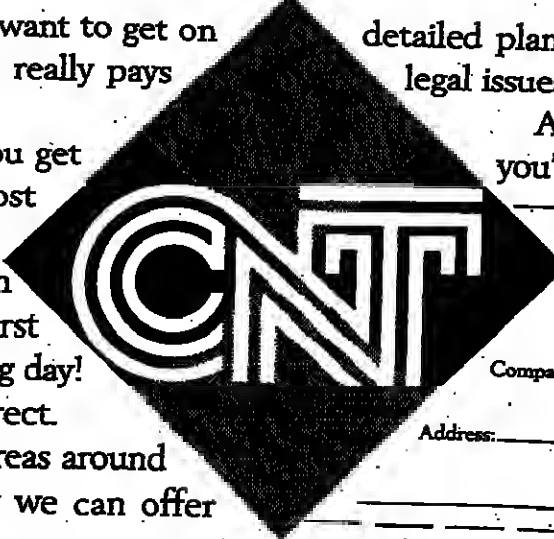
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NEWS: THE AMERICAS

# Samper urged to quit as drugs claims widen

By Sarita Kendall in Bogotá

The political crisis surrounding Colombian President Ernesto Samper deepened yesterday after the manager of his 1994 election effort said the president knew the Cali drugs cartel partly financed his campaign.

Mr Fernando Botero Zea, also a former defence minister, broke a five-month public silence over the issue and said that the president knew about campaign contributions from the Cali cartel, supposedly responsible at one time for more than three-quarters of the cocaine entering the US.

Influential political leaders from Mr Samper's Liberal party and the Conservatives called on him to resign at once. While the majority of the cabinet have rallied round the president, the directorate of the Conservative party is discussing whether to leave the government.

President Samper immediately reaffirmed his innocence in a national broadcast, saying any drug money contributions to his campaign had been made without his knowledge and that Mr Botero was lying to save himself.

Mr Botero began to expand on his sworn statement to prosecutors on Monday, implicating the president.

He claimed his August decision to resign from the ministry of defence was made to preserve stability, but that the crisis had continued and deepened, affecting the economy and Colombia's credibility. Because of this he had decided to tell the truth, regardless of his friendship for the president and the risk to himself and his family.

In interviews from the army barracks where he has been held since last August for his

alleged role in accepting Cali cartel campaign finance, Mr Botero asked Colombians to forgive him for his negligence in the campaign and denied he himself solicited or managed drug funds.

Many of those calling for the president's resignation say vice-president Humberto de la Calle, now ambassador to Spain, would be an acceptable substitute. Mr Botero went out of his way to clear Mr de la Calle of any involvement in or knowledge of the multi-million dollar drug contributions to the campaign.

Some politicians say that, as the vice-president was elected with the same funds, he cannot assume the presidency; they suggest a president chosen by the much-discredited congress.

Legally, a congressional commission which absolved the president a month ago should now reopen the investigation against him. But this would



Samper: under growing pressure over Cali money

not satisfy critics because charges have already been laid against the commission for manipulating evidence and several members were also elected with Liberal campaign funds.

In a rare lapse in his display of self-confidence, the president admitted the possibility of holding a plebiscite on his administration.

## Ailing companies queue up for special government help to avert bankruptcy

# High on the danger list in Mexico

By Leslie Crawford in Mexico City

Twenty ailing Mexican companies with debts totalling \$5.6bn (\$3.8bn) are the first of a long list of applicants which are receiving special government help to avert bankruptcy.

Another 80 corporations are awaiting admission to the finance ministry's intensive care unit for rich companies fallen on hard times.

Government officials said yesterday they were acting to forestall large-scale corporate defaults to give the economy, battered by a devalued currency, high interest rates and the collapse in domestic demand, chance to stage a recovery.

Mr Eduardo Robinson Bours, who heads the finance ministry's special unit for distressed corporations and his small team of senior government officials see their role as impartial

mediators between heavily indebted corporations and their creditor banks.

"We are dealing with companies that owe large syndicated loans, and where communication between the debtor and its many creditor banks has broken down," Mr Bours said. "In many cases, it was the banks who approached us first, worried about the complexity and the cost of recovering debts through legal action."

At Synkro, a hosiery manufacturer which took on a lot of debt in 1994 to expand into the US, Mr Alejandro Giordano, the financial director, admits: "Yes, we are on the list. Mr Bours is helping us renegotiate \$300m of short-term debt we owe to a consortium of 10 banks."

Mr Bours said successful reschedulings had been completed in two cases: Grupo Zapata, a Mexican bottler which has refinanced \$40m of commercial bank debt, partly

through the issue of bonds convertible into equity, while Grupo Costamex, which sells time-share schemes in Mexican tourist resorts, has won an extension on the repayment of \$120m of bank debt.

For more complex cases, however, Mr Bours said the government was studying debt-relief schemes using Mexican Brady bonds, the details of which had not been fully worked out.

The bonds, named after former US Treasury secretary Mr Nicholas Brady, form part of Mexico's sovereign debt restructured in the 1990s with the help of US guarantees. The bonds, which are actively traded, can be split into a zero-coupon bond, which pays principal upon maturity, and an interest-bearing component. When only the interest-bearing component is sold, the bonds are traded at a deep discount.

Under a plan proposed by Nafinsa, the national develop-

ment bank, heavily indebted companies would be given credit facilities to purchase discounted Brady bonds. Mexican commercial banks would then accept the bonds at face value in exchange for cancelling the equivalent amount of corporate debts.

The plan, however, is being resisted in its present form by the National Banking and Securities Commission, which is worried about its impact on Mexico's volatile currency and the value of Brady bonds traded abroad.

"We cannot have Mexican companies all rushing at once to buy dollars in order to purchase Brady bonds," says Mr Javier Gavito, a vice-president at the commission.

"We will have to be selective," he said. He was aware that a discretionary scheme might invite accusations of favouritism, but said the qualifying criteria

would be "impartial and transparent." There would be no preferential treatment, and no government subsidies," Mr Gavito said.

Government officials appeared keen to play down the scope of the debt relief scheme, if only to avoid unfavourable comparisons with last year's efforts to rescue troubled banks. Bank owners have been required to inject fresh capital into their institutions, or accept a dilution of share-ownership, in exchange for being allowed to eel large amounts of non-performing loans to the government.

It is unlikely that similar conditions could be exacted of heavily indebted companies.

However, both banks and distressed corporations have warned the government that it is unlikely to see an economic recovery this year unless it can rid the private-sector of the albatross of corporate debt.

## Aircraft ride for Argentine jobless

By David Pilling in Buenos Aires

The governor of Argentina's Tucumán province, General Antonio Domingo Bussi, has come up with a novel way of tackling his unemployment problem - exporting the jobless.

Gen Bussi, elected governor last year, recently hired a Hercules aircraft from the air force to fly 500 unemployed sugar mill labourers to the provinces of Rio Negro and Neuquén in order to find seasonal fruit-picking work.

The move has unleashed a war of words, with officials from the recipient provinces accusing Gen Bussi of dumping his social problems on them. Mr Pablo Verani, Rio Negro governor, said Tucumán labourers, many of whom work for as little as \$8 for a 15-hour day were undermining local labour conditions. He urged employers to hire local workers, but has been instructed by the federal government that this violates the constitution.

Gen Bussi says he is merely providing comfortable travel for the thousands of labourers who traditionally migrate by truck to the south in search of seasonal work. Once there, Tucumán workers often face discrimination and appalling working conditions. Many are housed in makeshift shelters without water or latrines.

Tucumán, one of Argentina's poorest provinces, has nearly 20 per cent unemployment, 4 points above the national average. "I can't stop them migrating in search of work," said Gen Bussi. "They need money, they are hungry and they want to take care of their families."

The situation in many of the recipient provinces is little better. Rio Negro has 14 per cent unemployment and is months behind in the payment of state employees. Neuquén has a 16 per cent jobless rate.

This is not the first time Gen Bussi has employed such tactics. He once tried to truck Tucumán's beggars to the neighbouring province.

AMERICAN NEWS DIGEST

## US consumer spending up

US consumer spending rose 0.9 per cent in real terms in November, outstripping a 0.2 per cent gain in real personal disposable income, the Commerce Department said yesterday, in a report delayed by the budget impasse.

The unexpectedly rapid growth of spending caused a fall in the personal savings rate to 4.5 per cent, against 5.2 per cent in October. Disappointing retail reports for the Christmas period, however, indicate that consumer spending growth was slower last month, reflecting modest job growth and the low saving rate.

Figures for October also released yesterday showed a 0.8 per cent decline in real consumer spending and a 0.5 per cent gain in disposable incomes. Revised data on gross domestic product last week indicated that consumer spending grew at an annualised rate of 2.9 per cent in real terms in the third quarter of last year, down from 3.4 per cent in the second quarter.

Michael Prouse, Washington

## Greenspan acts on default

Mr Alan Greenspan, the US Federal Reserve chairman, was yesterday afternoon due to meet Mr Dick Army, the Republican leader in the House of Representatives. The meeting was expected to focus on the looming threat of a federal government default.

Mr Robert Rubin, the treasury secretary, warned Congressmen on Monday that the government would default on February 28 or March 1 if the \$4,900bn debt ceiling was not increased. Mr Arney has said that the House will not approve an increase in the debt limit unless President Bill Clinton agrees to a substantial share of the Republican agenda for balancing the budget.

Reuter, Washington

## Argentina fires pose fresh threat

Pressure was growing yesterday for the resignation of Mrs María Julia Alsogaray, environment secretary, after criticisms that her department had failed to control forest fires raging in southern Argentina. Fires have destroyed thousands of hectares of ancient forests in national parks in the provinces of Chubut and Rio Negro and have spread to South America's principal ski resort of Bariloche where they are closing in on several multi-million dollar ski lodges.

People in the affected region have accused the federal government in Buenos Aires of failing to respond to the disaster and of lacking basic equipment to combat the emergency. Mrs Alsogaray, who last Thursday told the cabinet the fires were under control, has been backed by President Carlos Menem, who has denied departmental negligence.

David Pilling, Buenos Aires

## Chilean secret agent arrested

Argentina has arrested a former agent of the secret police created by Chile's 1973-90 military regime, reopening the sensitive issue of dispensing justice for human rights abuses.

Mr Enrique Arancibia Clavel is wanted for his alleged role in killing a former commander-in-chief of the Chilean army, General Carlos Prats and his wife. They died when their car was destroyed by a bomb in Buenos Aires in 1974. Gen Prats opposed the 1973 military coup in Chile and fled to Argentina. Ms Pamela Pereira, lawyer for the Prats family, said the killing of Gen Prats was part of Operation Condor, in which secret police in Argentina, Chile and other Latin American countries co-operated in arresting and eliminating opponents to military regimes.

Lake Sogaris, Santiago

NEWS: INTERNATIONAL

# Private capital flows to Third World buoyant

By Stephen Fidler, Latin America Editor

Private capital could account for 90 per cent of net financial flows to the world's emerging economies this year, according to a report published today by the Institute of International Finance.

Of the private flows, equity investment could make up half, according to the IIF, the Washington-based study group owned by 300 international financial institutions. Despite Mexico's financial crisis, private capital flows to the 31 most important emerging economies in Asia, Latin America and eastern Europe were stable in 1995 at \$113bn (\$113bn), it said, forecasting they will stay around that level this year.

Net financial flows to borrowing countries by region (\$bn)	1993	1994	1995e	1996f
Private Major borrowers of which:	192.5	174.7	174.8	175.3
Latin America	75.0	60.5	36.8	51.7
Asia/Pacific	76.8	87.5	93.8	96.9
Central & Eastern Europe	13.7	13.4	21.2	12.8
Official Major borrowers of which:	22.3	23.2	41.2	10.9
Latin America	1.7	0.0	27.4	-3.7
Asia/Pacific	11.8	13.8	6.8	8.5
Central & Eastern Europe	8.7	3.9	3.8	3.3

This year's private inflows could "conceivably approach or exceed" the 1993 record of \$190bn, but some countries were likely to try to limit some

of the capital inflow. Private flows to Latin America could reach \$32bn in 1996, compared with \$37bn last year, though still remain below

1994's \$61bn. Those to the Asia-Pacific region were expected to slip to \$87bn from \$94bn. Flows to central and eastern Europe were forecast to drop to \$13bn from \$21bn.

Overall net flows to emerging markets were likely to fall from \$216bn to \$186bn, as borrowing from official sources falls from a 1995 level swollen by an emergency Mexican financial package. Net official flows were forecast to fall from \$41.2bn last year to \$10.9bn in the absence of further large-scale financial crises.

The composition of private flows was expected to change. Bond financing and direct investment were expected to rise, while banks were likely to cut short-term lending from the high levels of 1995.

Equity investment was expected to rise to \$92bn in 1996 from \$87bn last year. Latin American equity inflows should increase, reflecting an underlying expansion in foreign direct investment and a recovery in portfolio flows to Argentina and Mexico. Flows into Brazil could be large if privatisation proceeded rapidly.

Equity inflows to Asia should expand slightly to \$50bn, of which those to China should stabilise at about \$30bn. Net inflows from banks were seen falling from an estimated \$66bn last year to about \$45bn this, as short-term credits were cut. Some \$12bn of last year's figure was accounted for by Brazil, which seemed unlikely to sustain such inflows this year. Asia received about

\$30bn in bank finance of which Thailand received roughly half, a figure likely to drop to \$10bn this year.

Non-bank creditors, including bond investors, were likely to increase their financing to emerging economies, the IIF said, to a forecast \$37bn from \$22bn in 1995. Some \$5 per cent of emerging market bonds last year were issued in yen, against 16 per cent in 1994, and the Japanese market's importance was seen continuing this year as Tokyo's bond market rules were relaxed.

The IIF also estimated a widening of the economies' current account deficits to about \$76bn from \$60bn, despite a narrowing in the Latin American deficit to about \$21bn from \$27bn.

# Beirut starts to re-emerge as a business centre

The city aims to act as a channel for funds returning to Lebanon and the region, Roula Khalaf reports

For the Netherlands' ING Bank, setting up in Lebanon five years after the civil war took a year of preparation. With daily power cuts and phones often working at their own whim, the ING team had trouble finding an office to house sufficient electric generators and arrange for 20 working phones and cellular lines to be installed.

But Mr Konrad Petersen, ING's general manager for Lebanon, says it was all worth the trouble. "We see the re-emergence of Lebanon as a business centre for the Middle East, where business transactions are concluded, as it was before the war. This entails demand for ever more sophisticated financial services."

ING is only one of several foreign institutions betting on a Lebanese revival. New arrivals into the market include Indosuez, Citibank and Robert Fleming. ING is starting out with a focus on the local market but with an eye to using the Lebanon branch as a regional base for commercial banking and capital market operations.

In the 1970s, Beirut's strict bank secrecy laws and free-market spirit turned the city into a regional banking centre, through which petrodollars were channelled to the west. While Lebanon fought its bit-

ter war, the oil boom drew to an end and a cash crisis gripped the oil-rich Gulf states. At the same time, banking centres sprang up from Bahrain to Cyprus and better education and training produced a new breed of Gulf bankers, more adept at doing business with western partners.

Beirut now aims to act as a channel for funds coming back into the region to finance infrastructure projects governments can no longer afford, take part in privatisations, and boost private-sector capital. Bankers see it as a centre around which financial transactions are conducted for projects in Syria, Jordan, the Palestinian entity, and one day, Iraq.

Politically, Lebanon is dominated by Syria, and is waiting for the signing of a Syrian-Israeli deal before negotiating its own peace with Israel. This should restore stability to the south and free it of Israeli forces, but legitimise further Syrian control over the country. Ultimately, Lebanon may be able to take advantage of the eventual opening of the Syrian economy.

As it rebuilds its infrastructure, it is showing signs it can use its free-market economy and energetic private sector to regain at least in some form its past role. "Everybody else lags behind in terms of commit-

ment to move things ahead," said Mr Angus Blair, head of research for the Mediterranean at ING Barings. "All you have to do is look at Lebanon's Eurobond issue."

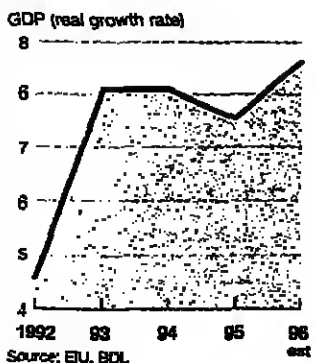
Lebanon was the first Arab country to tap the Eurobond market in 1994 with an over-subscribed \$400m issue, followed last year by a \$300m deal. Last autumn, it was again a Lebanese bank, Banque Audi, which became the first Arab issuer of Global Depository Receipts. The bank raised over \$34m in a twice-subscribed issue sold mainly to European and US institutional clients.

Local and foreign bankers are pinning hopes for the development of a regional capital market on the Beirut stock exchange, which opened on Monday. The bourse is hardly the first in the Middle East and its capitalisation is a mere \$300m but it is fully open to foreigners, carries no capital gains tax and a 5 per cent withholding tax on dividends.

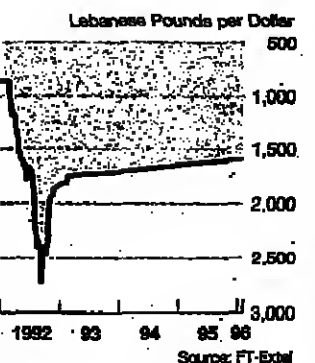
With capital moving back into the country to finance reconstruction, it is hoped the bourse will be invigorated with a slew of new issues. A total of 15 companies could be listed by the end of 1996, Lebanese officials say.

For the market to take off, it needs the Lebanese govern-

### Lebanon



### Lebanese Pounds per Dollar



ment to promote economic growth and reduce the high rates offered on Treasury bills, which will lure investment away from the bourse.

Officials hope the Beirut stock exchange will eventually act as a regional market. They say Syrian companies will raise funds on the exchange, leading companies listed on other Arab exchanges to seek another listing in Beirut. Some Lebanese banks are setting up desks to attract the billions of dollars of Syrian money held outside the country.

Western bankers cite the free capital movement and the maximum 10 per cent tax rate as attractions in the Lebanese

market. More than anything, they speak of Lebanon's human capital. "If you go to any major company in the Gulf, it will be run by Lebanese," says Mr Hughes. The same applies to Middle East departments at international investment banks in London and New York.

Whether this diaspora decides to go home is key to the country's revival. Some 800,000 to 1m Lebanese left during the war, the ministry of emigration says. Although reconstruction has fuelled real annual growth of over 7 per cent in the past three years, an acute shortage of affordable housing and low salaries, eroded by the depreciation of

the Lebanese pound during the war, still prevent many young Lebanese returning.

The Lebanese pound remains volatile, its stability dependent on the continued presence of Mr Rafiq Hariri, the billionaire prime minister and architect of the country's reconstruction, at the helm of government.

The Lebanese who have decided to go home have brought much-needed skills acquired in Europe and the US. Mr Ghassan Geajja, an MBA graduate from the Wharton School of Finance at the University of Pennsylvania, who spent 10 years in Paris as a fund manager, is an example.

He moved back to Beirut in 1992 to start Capital Investment Services, an investment firm. From Dora, east of Beirut, he has been selling international institutions derivatives on Lebanese Treasury bills.

A few miles west, in the Gannon Tower, Beirut's mini-Wall Street, young Lebanese bankers have returned home to work for Lebanon Invest, the country's first fully-fledged investment bank. Among their latest projects is a government-sponsored \$100m investment fund to be listed on a stock exchange in the west and aiming to inject capital into new or established Lebanese companies.

INTERNATIONAL NEWS DIGEST

## UN 'must keep Sahara force'



Withdrawal of the UN mission from the Western Sahara could have destabilising consequences for the region, Mr Boutros Boutros-Ghali, United Nations secretary-general, said in a report to the Security Council yesterday. The Security Council is to decide soon whether to extend the UN mission, charged with organising a referendum asking indigenous Saharawi inhabitants to choose between independence and integration within Morocco beyond the end of the month, when its mandate expires. The referendum has been delayed several times, prompting Security Council members to question the usefulness of the mission.

The Algerian-backed Polisario Front has been fighting for independence in the territory since Spain withdrew in 1975 and Morocco occupied the area. After a 1991 ceasefire, Morocco and the Front agreed to a UN plan calling for a referendum. Disputes over the eligibility of voters, however, have delayed the move.

Roula Khalaf, London

## Swaps market reassured

The Commodity Futures Trading Commission, the chief derivatives regulator in the US, has reassured the swaps market it has not changed its position on swap agreements following its action against two US subsidiaries of Germany's Metallgesellschaft (MG).

Last year the CFTC found that the MG units had sold illegal off-exchange futures contracts during a series of trades which brought their German parent to the brink of bankruptcy.

The MG case caused confusion in the swaps market about the legal certainty of swap agreements. The concern was such that in December, two US Congressmen, Mr Pat Roberts, chairman of the House Committee on Agriculture, and Mr Thomas Bliley, chairman of the House Committee on Commerce, wrote to the CFTC asking for clarification.

On January 19 Ms Mary Schapiro, CFTC chairman, wrote back to the two Congressmen saying: "With respect to swaps, the MG action does not, and should not be read to, address those instruments."

Antonia Sharpe, London

## Gulf states 'must curb unrest'

Unrest in Bahrain is part of a conspiracy against all Gulf states and should be confronted collectively, a Saudi Arabian newspaper said yesterday. The Gulf nations "are still targets for those who started the longest wars in the Gulf area's history," the Al-Madina daily said in an editorial that was clearly referring to Iran, which fought the 1980-88 war with Iraq.

The pro-government newspaper said the alleged conspiracy against Bahrain "is aimed at the whole area and just an introduction for a larger plan that has to be faced early on." Council - Kuwait, the United Arab Emirates, Qatar and Oman - have pledged support to Bahrain.

Bahrain's interior ministry recently arrested eight opposition figures accused of leading a three-day bout of demonstrations, clashes with police, arson attacks on schools, houses and cars, and gas cylinder explosions.

AP, Manama



## BMW to increase output in S Africa

By Mark Ashurst in Johannesburg

BMW, the German luxury car manufacturer, yesterday announced it would invest R1bn (\$275m) to increase output at its South African subsidiary during the next four years.

Mr Bernd Pischetsrieder, chairman, said BMW South Africa had become a fully fledged subsidiary of BMW's global network. Production at its Rosslyn plant, north of Pretoria, would rise to 25,000 cars a year in three years, of which about one third would be exported.

The investment comes after a record year for South African car sales, which rose 24 per cent to 875,411 in 1995. It also highlights the predicament of local vehicle manufacturers which face competition from imports following sharp cuts in import duties from 125 per cent to 65 per cent.

Mr Chris Moerdyk, BMW South Africa's public affairs manager, said the investment, a mix of foreign and local capital, would raise production capacity by 20 per cent. He expected an industry-wide export drive among local manufacturers, including Mercedes, Nissan, Toyota, Volkswagen, and licensees of General Motors, Mazda and Ford. "Without exports we will not survive. It wouldn't pay to relocate," he said.

Roslyn ceased production of 5-series models at the end of last year and will produce only 9-series models, predominantly for African and Asian markets.

Production of the BMW 7-series ended in 1994, but other models were available for import. Export markets would be identified by BMW's headquarters in Munich on the basis of shortfalls in supply.

BMW South Africa produced 18,000 vehicles for the domestic market last year, the highest output since 1983.

About 1,000 were exported to sub-Saharan Africa, and a further 200 to Pakistan.

## GE unit still eyes Airbus

By Michael Skapinker, Aerospace Correspondent

GE Capital Aviation Services (Gecas) is still talking to Airbus Industrie, the European consortium, about a possible aircraft order, in spite of its announcement this week that it was buying up to 259 jets from Boeing of the US.

Boeing has defeated Airbus in recent contests to supply aircraft to Singapore and Malaysia Airlines, but industry officials believe Airbus still has a chance of winning some of the Gecas business.

Gecas, the leasing arm of General Electric of the US, this week announced it was ordering

five Boeing 777s and 102 Boeing 737s. Gecas has also taken an option to buy a possible further 152 Boeing 737s.

Gecas is thought to be talking to Airbus about buying about 40 aircraft.

The orders confirm the strong upturn in aircraft purchases this year.

In the first three weeks of this year, Boeing has won more orders than it did in the whole of 1994.

In addition to the Gecas order, Boeing earlier this month defeated Airbus to win the order from Malaysia Airlines for 15 Boeing 777s and 10 Boeing 747-400s, bringing total orders in January to 132 so far.

In 1994, Boeing won only 130 orders during the entire year.

Last year, the US group won 346 orders, which means that this year's tally so far is more than a third of all the orders Boeing received last year.

The picture at Airbus is less cheerful. The consortium, which is owned by Aerospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain, has received orders for only nine aircraft so far this year, compared with 106 last year.

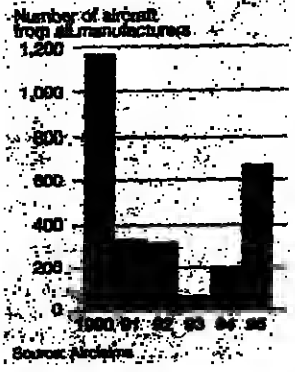
The first three weeks of the year cannot be seen, however, as an indication of the likely

progress for 1996 as a whole. Apart from a possible order from Gecas, Philippine Airlines said this month that it planned to buy 28 aircraft from Airbus, as well as eight 747 jets from Boeing.

Bombardier of Canada is selling 50-passenger Regional Jets and turboprop Dash 8-300s worth \$425m to Romania's privately owned DAC Air, writes Robert Gibbens in Montreal.

The order is in three parts: four RJs and four Dash 8s fully financed through international banks for delivery by late 1997, then four more of each, conditional on financing, with delivery by 1998; and a further

World civil aircraft orders



four of each as options. The 24 Bombardier aircraft will replace Russian-built aircraft in service for 30 years. The contract includes air and maintenance training in Canada.

## Vietnam leases 10 A320s and 3 Boeings

By Jeremy Grant in Hanoi

Vietnam Airlines, one of the world's fastest growing carriers, has leased 10 Airbus Industrie A320 aircraft and three Boeing 767-300s as part of plans to expand its fleet to meet rapidly growing demand, an airline official said yesterday.

The move clears the way for sales of new aircraft by Boeing and Airbus Industrie, the European aircraft manufacturer

consortium, to the leasing agents.

Under a contract signed with an affiliate of Regional, a Singapore-based agent, the Vietnamese flag carrier will acquire the A320s on an operating lease, giving it the option of flying and maintaining the aircraft or contracting this out.

A second Vietnam Airlines official said a separate lease agreement had also been signed for three Boeing 767-

300s from GE Capital Aviation Services (Gecas), a unit of General Electric of the US.

Airbus Industrie is understood to be negotiating the sale of the 10 aircraft to Regional, which must buy them to satisfy Vietnam Airlines' policy of acquiring new aircraft. Financing is likely to come from the banks, with a measure of European export credit backing.

An official at engine manufacturer CFM International in

Paris said work had started on a batch of engines which Vietnam Airlines had chosen for the A320s.

CFM International, a 50-50 joint venture between General Electric and the French government-owned Snecma, stands to gain business worth over \$100m (\$28.2m). The group appears to have beaten off a proposal from International Aero Engines (IAE), which groups Rolls-Royce, the US company Pratt & Whitney

and MTU of Germany. CFM-56 engines are in use on A320s currently flying in Vietnam.

Vietnam Airlines has seen its traffic grow 50 per cent a year since 1987. Airline officials have said they want to double the fleet by the year 2000, swapping ageing Soviet-made Tupolevs and Yaks for modern aircraft.

Experts say the carrier could be running about 50 aircraft costing \$2bn-\$3bn in the next 10-15 years.

## China to lead global music sales growth

By Alice Rawsthorn

China will be by far the fastest growing market for the music industry over the next five years, if progress is made in stamping out music piracy.

The Chinese music market has the potential to grow ninefold from \$241m in 1994 to \$2.16bn in 2001, says the MBI World Report, a study commissioned by Music Business International magazine.

Other Asian markets, notably India, Thailand and Indonesia, are also forecast to show dramatic growth. This will accelerate the trend for Asia to command a larger share of global music sales, with the established markets of North America and Europe continuing to lose share.

The expansion of the Asian

market could pose strategic problems for the six companies - PolyGram, Sony, BMG, Warner, EMI and MCA - which control two thirds of the global music market. They are all owned by European or North American groups, except for Sony Music, a subsidiary of the Japanese electronics group, and have traditionally derived a high proportion of profits from Anglo-American popular music stars.

However, musical taste has become more chauvinistic in the 1990s, particularly in the fast growing Asian market, where consumers tend to prefer indigenous stars.

Although MBI expects the "big six" to continue to dominate the global market, it may be more difficult for them to nurture lucrative global stars,

such as Elton John or Michael Jackson, in the future.

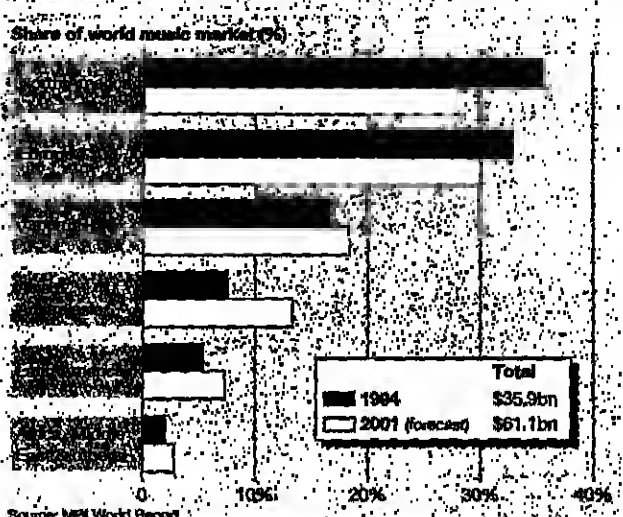
Growth in Asia will be considerably higher than in the west.

MBI predicts sales of recorded music in Asia will rise from \$2bn in 1994 to \$7.09bn in 2001, with its share of the global market rising from 5 per cent to 13 per cent. By contrast, sales will continue to show strong growth in Europe - up from \$11.8bn to \$13.4bn in the same period.

Meanwhile, the global music market, which has shown 14 per cent growth over the past year, rising from \$36bn in 1994 to \$41bn in 1995, is expected to rise to \$61bn by the year 2001.

MBI World Report, £475 from MTL, 7 Archway Business Centre, Wadmore Street, London N19 4RU. Tel: 0171-263 1363.

The scale of things to come



Source: MBI World Report

### WORLD TRADE NEWS DIGEST

## Total, Vietnam in refinery talks

French energy group Total and the Vietnamese state oil agency PetroVietnam are discussing investment in a second oil refinery despite Total's decision to withdraw from plans for the country's first facility. "We are talking [to PetroVietnam] working seriously on this subject. We are pushing to develop our activity in downstream," Mr Jean-Pierre Labbe, general manager of Total's Vietnam refining and marketing operation, said yesterday.

Vietnam defied the energy industry by insisting last year that it will build an oil refinery, despite anticipated refining overcapacity in the region. The refinery is to be built, for political reasons, at Dung Quat, a barren coastal site with virtually no infrastructure. Total walked away from the project in September last year, saying it would not be economically feasible. The French group wants a refinery in southern Asia to support its regional petroleum product marketing and distribution plans. Hanoi has said it wants to build a second refinery. *Jeremy Grant, Hanoi*

## NEC in Chinese chip venture

NEC, the Japanese electronics maker, will invest ¥12bn (\$114m) in a semiconductor facility in China, the first venture for advanced memory chips in China. NEC said that it would start mass production of 4-megabit dynamic random access memory chips at Shougang NEC, a joint venture with a local company which has become China's largest semiconductor manufacturer.

The move, which makes NEC the first company to start value-added semiconductor manufacturing in China, highlights the growing need of the Chinese market for advanced semiconductors, NEC said. Production of semiconductors in China had been restricted to assembly rather than fabrication. The new production line is scheduled to begin mass production of 4 megabit DRAMs in November, with a production capacity of 8,000 wafers in total. The number of chips to be manufactured will rise to 8.7m units in 1997. NEC will further manufacture advanced 16-megabit DRAMs beginning in July. *Michiko Nakamoto, Tokyo*

## European to chair Nafta dispute

The US and Canada have for the first time chosen a non-North American trade expert to chair a dispute settlement panel set up under the North American Free Trade Agreement (Nafta). Prof Elin Lantier, former director of Cambridge University's Research Centre for International Law, will head a five-member panel examining high Canadian tariffs on dairy products, poultry and eggs. The tariffs, a cornerstone of Canada's farm supply management system, were imposed within the Uruguay Round of multilateral trade negotiations to replace quotas and other non-tariff barriers. However, the US has challenged them, claiming they violate Nafta's prohibition on new customs duties. *Bernard Simon, Toronto*

Hewlett-Packard of the US plans to set up a joint venture foundry to design and manufacture integrated circuits in Taiwan, marking the company's entry into the island's booming semiconductor industry. The plant is expected to have a capacity of 30,000 eight-inch wafers a month and to start operations by the end of 1997. *Laura Tyson, Taipei*

Harris Farinon, a Canadian subsidiary of the US Harris Corp, will supply C862m (US\$45m) of digital microwave radio equipment to Polcom Communications of Malaysia to extend basic and cellular telephone systems. *Robert Gibbens, Montreal*

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Mr Paolo Scolari  
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NEWS: ASIA-PACIFIC

# Hong Kong drops TV law

By Simon Holberton  
in Hong Kong

The limits of British rule in Hong Kong were underlined yesterday when the government said it was unable to proceed with its much promised broadcasting law.

Failure to go ahead with the bill, which has been under consideration for five years, means it will fall to the post-colonial administration to deal with the issues of cross-media ownership and Hong Kong's role as a regional hub for satellite television and communications.

Hong Kong reverts to China in less than 18 months. Recently Beijing had showed a desire for better relations with Britain, the outgoing sovereign, but has tempered its overture with demands that London hold back from making changes to Hong Kong's laws and institutions.

Governor Chris Patten is coming under increasing pressure from both the Foreign Office in London and Hong Kong government officials to slow the pace of change in the colony. As this year proceeds, he is likely to be pressed to co-operate with China on dismantling his electoral reforms.

The government had intended to bring forward a bill to consolidate into one law broadcasting provisions of the television and telecoms laws.

The decision not to proceed with the bill was criticised by pro-democracy politicians in Hong Kong as "kow-towing" to China.

A spokesman for Mr Patten said the government had merely run out of time. It still intended to bring existing legislation in line with the Bill of Rights. Hong Kong's civil rights law, which will mean repealing the authorities' right of pre-censorship, and curbing the government's powers to intercept phone calls.

Mr T H Chau, secretary for recreation and culture, said he would give priority to drawing up proposals to regulate video-on-demand, together with a review of cable TV deregulation.

What Cable's exclusive franchise to broadcast cable TV ends in May. It has vigorously opposed Hongkong Telecom's plans to introduce video-on-demand. Hongkong Telecom wants to offer this service by July this year.

Mr Chan said it was important the government helped facilitate development of video-on-demand "while considering its impact on the market". He said he hoped to be able to bring forward proposals by March and legislate by the summer; it would issue a consultation paper by the end of April on deregulation of cable TV.

# Bank of Japan to keep low interest policy

By William Dawkins in Tokyo

The Bank of Japan will maintain an easy monetary policy for the foreseeable future, despite signs of economic recovery, Mr Yasuo Mutsuhita, its governor, said yesterday.

His remark confirms the expectations of most economists in Tokyo. But it is significant because it came after the latest quarterly meeting of the central bank's regional branch managers, an important influence on the evolution of the BoJ's view of the health of the domestic economy.

The bank's 33 branch managers yesterday gave a more optimistic assessment of the business outlook than at their previous meeting in October.

## Recent economic indicators give grounds for encouragement

This is in line with the recent series of encouraging economic data at the end of last year, showing rises in industrial production, capital investment, corporate profits, retail sales and housing starts. The BoJ recently announced that Japan's benchmark money supply, M2 plus certificates of deposit, rose by 3.3 per cent last year, up from 2.1 per cent in 1994.

Mr Mutsuhita said he wanted to see how much of the recovery could be sustained and to what extent private demand could take over from the public sector stimulus delivered by last September's record ¥14,220bn (820bn) fiscal pump-priming package.

"At this point there remains uncertainty, including to what degree the Japanese economy will be able to absorb pressure from various structural reforms," he warned.

The BoJ's official discount rate, at which it lends money to commercial banks, has stood since last September at 0.5 per cent, the lowest in any leading economy during the post-war years. Since then, it has pumped enough cash into the money markets to keep overnight rates, at which banks borrow from each other, below the official discount rate.

Economists in Tokyo are assuming it will stay at that level so long as there is enough surplus labour and production capacity to make inflation unlikely. Unemployment stands at a record 3.4 per cent, the jobs market is weak, and economic growth is running at 3.4 per cent below potential.

Another factor in keeping interest rates low is the BoJ's policy of keeping a steep yield curve, to enable private-sector banks to earn profits on the bond market to write off bad debts. They borrow cheaply from the BoJ and invest the cash in higher yielding government bonds.

Mr Mutsuhita said yesterday the BoJ would continue to support banks in difficulties in securing liquidity for their restructuring.

# Tokyo telecom and broadcast rules eased

By Michio Nakamoto in Tokyo

The Japanese authorities yesterday signalled a greater willingness to promote competition in telecoms and broadcasting and to lay the groundwork for developing multimedia services, with the announcement of a series of much-awaited deregulation measures.

The Ministry of Posts and Telecommunications said it would relax rules in the two industries criticised for hampering the emergence of new businesses and restricting competition.

The ministry's move comes as part of a government effort to step up deregulation measures to general and stimulate growth in new areas amid a structural shift in the Japanese economy. It coincides with a wide-ranging review of NTT, the country's dominant telecommunications carrier, expected to have a big impact on Japan's future telecoms policy.

In its latest deregulation move, the ministry proposes to relax rules which set restrictions on the number of so-called Type I common carriers: those offering fixed-line telecoms services using their own infrastructure. It would make it clear that in principle businesses would be allowed to pull out of the market, and that no restrictions exist on companies, apart from NTT and KDD, offering different types of telecoms services.

The ministry's strict regulations have been criticised by members in the industry and the government's advisers on administrative reform as discouraging new market entrants and restricting the growth of new services.

In addition, plans to liberalise connection between private leased lines and public lines will be brought forward by a year from some time before the end of the 1997 fiscal year to as early as possible to fiscal 1996 which begins in April.

The move is expected to expand new services in the long-distance market to individual consumers at lower rates than at present offered by large telecoms carriers such as NTT.

Connection between international value-added networks and public phone lines is also expected to be liberalised to fiscal 1997.

The restriction on foreign investment in Type I carriers, currently limited to a third of the equity, is likely to be relaxed. Foreign investment in NTT and KDD will be reviewed after the ministry's advisory panel submits its conclusions on NTT's future status at the end of next month.

The MPT will further draw up specific rules regarding interconnection between NTT's local network with the long-distance networks of its competitors and consider amending the telecommunications law accordingly.

The difficulties that long-distance carriers have had in interconnecting with NTT's local loop have been a source of friction between the dominant carrier and its competitors and have led to calls for the break-up of NTT, which has a virtual monopoly over local business.

In addition to requiring NTT to provide its competitors with access to the local loop, the ministry is considering drawing up rules covering connection costs and disclosure of necessary accounting information.

Mobile phone companies will be allowed to change their rates by simply informing the ministry rather than applying for approval.

In broadcasting, the ministry plans in the year to March 1997 to relax rules governing ownership of media companies and regulations on pay TV services. At present, a company can own only one television channel and radio station, and a newspaper publisher cannot own a TV broadcaster.

# Australian opposition pledges telecoms sell-off

By Nikki Tait in Sydney

A partial privatisation of Telstra, Australia's large telecommunications carrier, will go ahead if the coalition opposition wins power at the next federal election.

The carrier, which is the only general local service provider in Australia, although it now faces competition in the long-distance and cellular markets, is currently wholly owned by the federal government. Its 1994-95 revenues were just over A\$14bn (8.8bn), and its market value has been estimated at more than A\$25bn.

In a communications policy statement issued yesterday, the Liberal and National parties, which make up the coalition, said that they would sell a third of the carrier in their first parliamentary term in government. The share flotation could take place in the two tranches, depending on market conditions.

"If we decide at the end of our first term to privatise more of Telstra, then we will go to the subsequent election seeking an explicit mandate to do that," said Mr John Howard, coalition leader.

Foreign ownership would be limited to no more 35 per cent of the publicly held shares, and no more than 5 per cent could be held by any single foreign shareholder. The coalition also pledged to legislate community service obligations and retain price caps for Telstra, to protect services for people living in rural areas.

The fate of Telstra is likely to become a significant issue in the impending election campaign, since it is one area on which the parties have clearly differentiated policies. Although there have been rumours in the past that Labor might consider selling parts of the business, Mr Paul Keating, Australia's prime minister, said yesterday that Telstra would not be privatised under a Labor government.

"Telstra is not for sale," he commented. When asked what time-frame this covered, he added: "I'm just telling you it's not for sale."

"This nation has basically got a major asset. It's got a major phone company with a huge turnover right in the middle of the biggest growth telephone market in the world and wouldn't we be complete fools to give it to foreigners?"

Despite its policy of keeping Telstra in public hands, the Labor government has moved to deregulate the telecoms market in Australia.

Optus Communications, which is owned by a mixture of local institutions and international telecoms operators, was formed to compete against Telstra in the long-distance market in the early 1990s. Optus and Britain's Vodafone are also licensed to compete in the cellular market. Labor is proposing to move to full market deregulation by mid-1997.

A federal election is due by May, and most commentators expect Mr Keating to get a March date. The most recent Newspoll opinion poll, published yesterday, gave the coalition a 10-percentage point lead over the government, although polls over the Christmas period showed a narrower advantage.

The opposition also pledged to review Australia's media ownership rules if it gains office, and said it would adopt a case-by-case approach to media-related foreign investment decisions.

This could have immediate implications for John Fairfax, publisher of the main heavy-weight newspapers in Sydney and Melbourne. At present, Mr Kerry Packer has a 17 per cent stake in Fairfax, but cannot go higher because of his ownership of Nine Network, the Australian TV network. Mr Conrad Black, the Canadian publisher, is also limited to 25 per cent under foreign ownership restrictions.

# Burma gas pipeline rouses opposition

Oil groups distance themselves from forced labour. Ted Bardacke reports

Burma's narrow southern peninsula, once a virtual no man's land, has become a battleground. The construction of a \$1bn (562m), 400km pipeline to transport offshore natural gas across the peninsula to Thailand, by an international consortium led by Total of France and Unocal of the US, has brought deaths in the jungle and denunciations in the west.

Last March five Total workers were killed and 11 injured by ethnic Karen rebels extracting revenge for the uncompensated expulsion of villagers along the pipeline route. Just last month security forces guarding the pipeline area came under attack again, resulting in at least one death.

The systematic use of forced labour by Burmese military units charged with protecting the pipeline and its employees, and the project's acute strategic importance to the Burmese military junta, have made the pipeline a target of western human rights activists initiating consumer boycotts of companies doing business in Burma. The forced labour surrounding the project is being trumpeted loudly by proponents of a recently introduced US bill that would outlaw further US investment in Burma.

By all accounts, workers on the pipeline itself are being paid, and paid well by Burmese standards, although kickbacks

by workers to the local military officers who have some power over who gets hired have been widely reported.

Workers in military camps being set up to secure the pipeline area are not so lucky.

"Last May the township military authorities ordered us to go to Heine Island. Two hundred of us were there for two weeks, clearing grounds, constructing a helicopter pad, building bamboo barracks and a wooden guest house. We were not paid, and when we left, more workers were forced to go to replace us. They were not paid either," says Mr Ohn Thaw, a villager from Kanbank who is now a construction worker in Bangkok after escaping from Burma late last year.

Previously uninhabited, the island in question is important for both construction and operation of the pipeline. It is located in the shipping lane through which Total will transport material and equipment to build the pipeline, and near the point where it emerges from the Andaman Sea on to Burmese soil.

Mr Ohn Thaw and other Burmese refugees say that as well as getting no wages, they were forced to pay for the petrol used in the boat which took them to the island and were ordered to take their own food.

"As soon as we got there, the military confiscated our food and then rationed it out to us. It wasn't enough, only two tins of rice per day, we usually eat three," says Mr Ohn Thaw, who adds that villagers in Kanbank who refused to go were either fined 3,000 kyat (about a month's wages) or arrested and sent to zones of conflict to act as porters for the military.

Total and Unocal say no operation under their control uses forced labour. Yet the security situation in the area is precarious and one Total executive involved in the project acknowledges that "unless the area is pacified, the pipeline won't last" the duration of the 30-year gas purchase agreement signed with the Petroleum Authority of Thailand.

Mr John Imle, president of Unocal, said last year that "if you threaten the pipeline, there's going to be more military. If forced labour goes hand in glove with the military, yes, there will be more forced labour. For every threat to the pipeline there will be a reaction."

That reaction is apparent to Mr Ohn Thaw. Forced labour suits in the area around his village "used to be once a year," he says. "Now it's three

times a year and the time (spent working) is double or triple what it used to be."

Citing these allegations among other things, this month US senators introduced legislation that would ban US investment in Burma - which, depending on its legal interpretation, could force Unocal to pull out of the project - until an elected government has taken power in Burma and international labour standards are being adhered to.

US campaigning groups, playing up instances of forced labour, have, meanwhile, succeeded in several American cities in enacting selective purchase legislation prohibiting local government purchases from companies investing in Burma. This year they will seek to push this campaign to the state level, which could deny Unocal millions of dollars in state government contracts.

These groups are also introducing shareholder resolutions aimed at prohibiting companies from carrying out operations there.

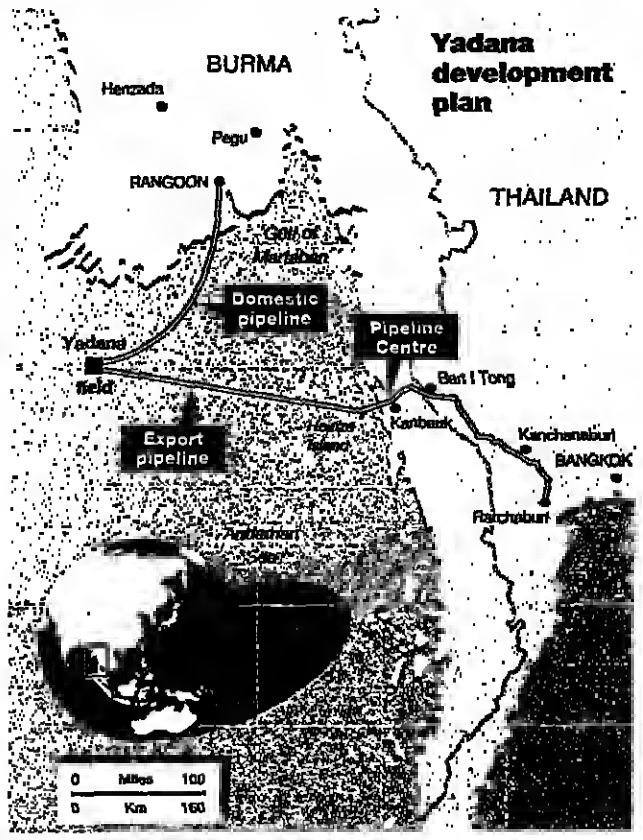
In some cases this pressure has been effective. In 1994 Hong Kong-based Victoria Garment Manufacturing Company, which has four factories in Burma, exported \$2m worth of textiles to US consumers such as Macy's, Eddie Bauer and Liz Claiborne. Under threat of picketing in front of stores and disruption of annual meetings, these companies stopped buying clothes made in Burma. Victoria Garment's US exports fell to around \$10m in 1995 and this year the company expects it will be forced to sack half its 3,300 workers in Burma.

While such redundancies in mainly hurt workers, disruption of the pipeline would be disastrous for the military regime. Huge reserves of natural gas exist in the Andaman Sea, and both Texaco and Arco are poised to begin production if Total and Unocal can show that delivering the gas to energy-hungry Thailand is feasible.

Burmese officials have indicated that the hard currency they will earn from selling the gas may eventually allow them to devalue the kyat, the most important obstacle to permanently reviving the struggling Burmese economy.

On top of the revenue, some of the gas will be transported by another pipeline to Rangoon, where it will generate electricity and be used to produce fertiliser, things the Burmese government desperately needs. "The pipeline is a key to so many projects," says Mr Set Maung, economic adviser to the Burmese generals.

Total and Unocal have been



st pains publicly to distance themselves from the Burmese junta. But as the pipeline progresses, the relationship is deepening, as the companies recognise that the military is the only real administrative authority in the country, according to a Total executive.

Signs of this collaboration turn up in the oddest places.

At Ban I Thong, where the pipeline will cross into Thailand, Burmese government troops have taken up strategic positions on a ridge which is nominally in Thailand. In the shirt pocket of a young private, who has tied a bunch of bananas to his belt laden with hand grenades, is a ballpoint pen sporting the logo of Total.

## ASIA-PACIFIC NEWS DIGEST

### Australian unions claim a victory

Australian union leaders were claiming victory yesterday after Comalco, the aluminium subsidiary of RTZ/CRA, was told by the Australian Industrial Relations Commission it must extend the more generous terms and conditions offered to employees working under individual staff contracts to other employees who perform similar tasks but choose to bargain collectively. The dispute, which originally centred on about 70 employees at Comalco's bauxite mining operations in north Queensland who refused to sign individual contracts, has become a national issue. The company claims employees working on individual contracts are more productive, and similar productivity gains cannot be achieved where a collective system remains in place.

Nikki Tai, Sydney

### Lower Thai inflation forecast

Thailand's slower export growth, especially in the service sector, and improved macroeconomic stability will ease pressure on prices this year, Mr Vijit Suptin, Thai central bank governor, said yesterday. He predicted inflation of 4.9 per cent in 1996 against 5.9 per cent last year. He and Mr Surakiat Sathirathai, finance minister, were addressing investors in London. Mr Surakiat said a pension fund would be ready for approval in March, and would - by encouraging savings rather than spending on imports - help reduce the current account deficit. A derivatives market was being planned.

Richard Adams, London and Ted Bardacke, Bangkok

### Chun and Roh face new charges

Former South Korean presidents Chun Doo-hwan and Roh Tae-woo yesterday faced new criminal charges as they were indicted for their alleged part in a 1980 military massacre of democracy protesters to the city of Kwangju. The two, who were jailed nearly two months ago, already face charges of leading a military coup in 1979 and allegedly taking bribes in office. Mr Chun and Mr Roh say they cannot be prosecuted for their roles in the 1979 coup and 1980 massacre because the 15-year statute of limitations has expired.

John Burton, Seoul

### Chinese students to pay fees

China is to start charging students fees for attending universities and colleges, while giving graduates more say in choosing jobs. Xinhua news agency quoted an official as saying the government would continue to subsidise colleges and universities, but from this year 500, nearly half the total, would introduce charges, with the rest to follow by 1997.

AFP, Beijing

# Opposition tries to enmesh Rao in bribes scandal

By Mark Nicholson  
in New Delhi

The Indian opposition yesterday sought to enmesh Mr P V Narasimha Rao, the prime minister in the country's political bribes scandal, by releasing a purported statement by Mr Surendra Jsin, the businessman at its heart, which alleges payments were made to Mr Rao.

The allegation by the Bharatiya Janata party (BJP) intensified the political row over the scandal, as serious as any corruption case since independence. Mr Rao's Congress party dismissed the charges as "false and baseless". Mr Rao "has not received money from Mr Jain or anyone else", an official said.

The Hindu nationalist BJP has been stung by indictment of Mr L K Advani, its president, along with nine other politicians for allegedly receiving bribes from Mr Jain. Party leaders claim the charges are an attempt to blunt the party's anti-corruption platform in elections due in April.

Mr A B Vaipayee, BJP leader, said the purported statement was drawn from Mr Jain's testimony last March to the Central Bureau of Investigation, the department leading the inquiry.

It quotes Mr Jain alleging that Mr R K Dhawan, a Congress MP, "told me to the presence of Mr Rao to give Rs500,000 for party funds, saying I would be compensated

adequately. After about two or three days, I paid Rs500,000 to Mr Narasimha Rao."

Mr Jain is quoted as saying he made several payments totalling Rs35.5m (1955,000) to Congress "party funds" and Mr Rao's "expenses" along with payments to Mr Chandraswamy, a controversial religious figure close to Mr Rao.

The payments, according to the purported statement, were aimed at securing work for Mr Jain's company, Bilhal Engineering, on a steel project.

Bureau officials have said Mr Jain did allege payments to Mr Rao, and the premier's alleged role in the Jain affair "has been investigated". Mr Rao is nowhere referred to in notebooks seized at Mr Jain's Delhi home in 1991 which form the basis for charges laid against top politicians last week.

Seven politicians were charged last week with accepting bribes, based on evidence from Mr Jain's notebooks, corroborated by Mr Jain's testimony to police. The charges allege Mr Jain was at the centre of a *hawala* (illicit foreign exchange racket) and to have paid dozens of politicians and bureaucrats to secure contracts between 1988 and 1991.

Charges were laid yesterday against three Congress Party ministers, Mr Madhav Rao Scindia, Mr V C Sukhla and Mr Balram Jhakar, for alleged bribe-taking. Arrangement had awaited presidential consent to remove their immunity. The three resigned last week.



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**DOVER**



# Mitchell to snub British call on IRA arms

**By John Kampfner, Chief Political Correspondent**

The international commission on Northern Ireland is expected today to recommend all-party talks before the Irish Republican Army has handed in any of its weapons, but only after Sinn Féin accepts six points of principle. Sinn Féin is the political wing of the IRA.

Former US senator Mr George Mitchell and his two colleagues will launch their 18-page "advisory" report to the British and Irish governments this morning in Belfast, and are expected to say that it is balanced.

The report is understood to call on the IRA to begin a phased "process of decommissioning" of weapons once negotiations about the future of Northern Ireland begin. It lays open the possibility of the paramilitary groups carrying out the handover or destruction of weapons themselves under independent verification. Its recommendation will be seen as an implicit call to the British government to drop its long-held demand for "decommissioning" before all-party talks can begin.

Principles which all sides are called on to "honour" are understood to include:

- A commitment to purely democratic means and recognition of the rights of parties that have gained a democratic mandate. This point, modelled on the 1993 Downing Street declaration, would be the furthest Sinn Féin has gone in acknowledging the rights of the anti-nationalist majority in Northern Ireland.
- An end to punishment beatings and other forms of violence which have continued since the IRA and its rivals ordered ceasefires in 1994.
- A commitment to abide by the outcome of any settlement.
- Agreement to the principle of "decommissioning" arms.

• Agreement that any handover must involve outside verification. One senior supporter of the continuing union of Great Britain and Northern Ireland expressed dismay. "Mitchell seems to have led us up the garden path," he said last night.

He suggested that Mr John Major, the UK prime minister, had intended to use publication of the report today to announce plans for elections to a Northern Ireland convention, in line with demands from unionists. That would now be difficult as Mr Mitchell had watered down his recommendations on the issue. The report stops short of endorsing proposals for an

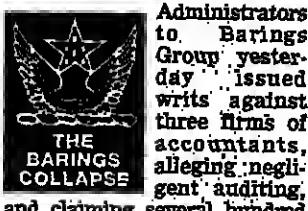
assembly that would serve as a forum for political talks on a constitutional settlement. It suggests it could be considered as one of several confidence-building measures.

Mr John Bruton, the Irish prime minister, consulted coalition colleagues. Sir Robin Butler, the British cabinet secretary, met Irish officials in London to discuss a co-ordinated Anglo-Irish response.

One official suggested the proposals would be as hard for Sinn Féin to accept as for Unionists. "It demands a little bit of everybody, and for that reason it's going to be tough to get everyone to agree," he said.

## Administrators sue auditors over 'negligence'

**By Jim Kelly, Accountancy Correspondent**



Administrators to Barings Group yesterday issued writs against three firms of accountants, alleging negligence, adding and claiming several hundred million pounds in damages. The action, which would take several years to come to court, prompted angry responses from the firms involved, which all said they would fight the case vigorously.

The administrators, from Ernst & Young, the accountancy firm, have been collecting evidence since the collapse of the merchant bank almost a year ago following massive losses in trading.

They said yesterday that they had waited until they had studied the reports on the collapse by the Bank of England (the UK central bank), and the Singapore authorities before issuing the writs.

Coopers & Lybrand's work as auditors was criticised but the collapse was principally blamed on Nick Leeson, the trader who ran up the losses, and the management which supervised him.

Mr Leeson, who lost \$1.4bn in bringing down the bank, pleaded guilty to two charges of cheating and was sentenced to six-and-a-half years in a Singapore court in December last year.

Ernst & Young refused to put a figure on the claim but said it would be "substantial".

The administrators are acting on behalf of creditors to Barings Group companies. The business "itself was sold to

Internationale Nederlanden Groep (ING), the Dutch bank.

It is understood that preference shareholders and bondholders have outstanding claims of around £200m. The Barings Foundation could also benefit - the UK grant-making trust held all the ordinary non-voting shares in Barings.

The writs have been issued against Coopers & Lybrand in London for the years 1991, 1992, 1993, and 1994; Deloitte Touche in Singapore for 1992, and 1993; and Coopers & Lybrand in Singapore for 1994.

A spokesman for Coopers in London said the claim had "come completely out of the blue". "We had no advance notice of any action. We have not been provided with the details of the claim - however we are not aware of any grounds for any claim against us."

"We were not responsible for the collapse of Barings. It collapsed as a result of management failures and fraud. This looks like another example of suing the auditors because they are perceived to have deep pockets regardless of genuine culpability," the spokesman said.

A spokesman for Deloitte Touche in Singapore said the writs was a surprise. "We are satisfied that the audits of Barings Futures Singapore in 1992, and 1993, were conducted with all required professional skill."

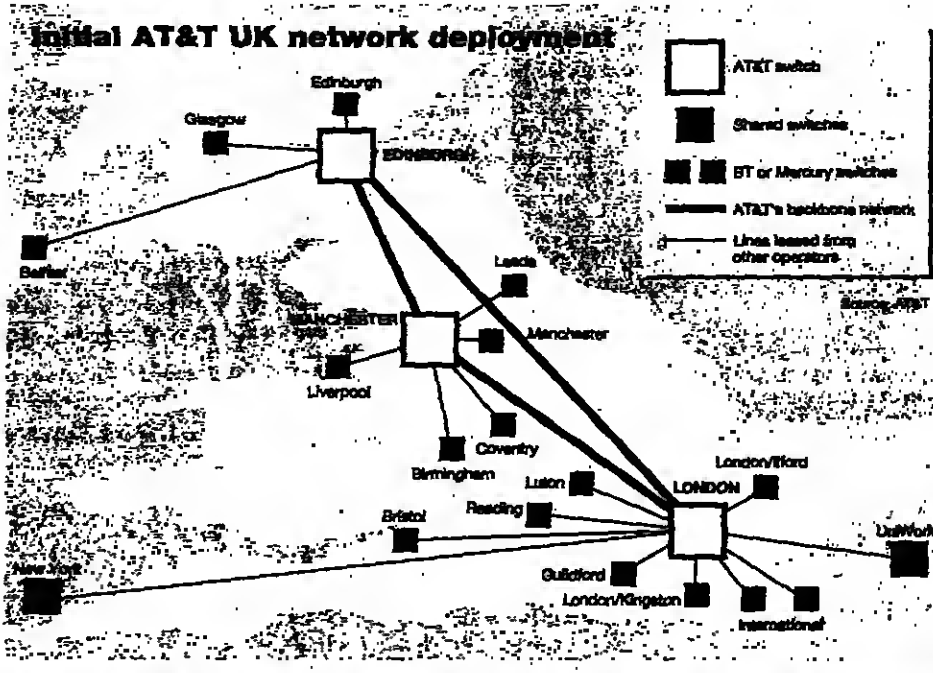
"We are also mystified by the claim - since none of the activities that caused the failure of Barings, and the consequent losses, occurred while we were auditors. In any event, the writ will be successfully defended," the spokesman said.

## AT&T expansion Regulator's demand for tougher rules wins support Understatement masks toughness

**By Alan Cane in London**

When AT&T applied three years ago for a licence to offer telephone services in the UK, it oozed aggression. It was ready, it said, to spend millions of dollars on digging up streets to provide the necessary infrastructure to reach business and residential customers.

But yesterday's announcements of AT&T's plans for expansion in the UK were restrained, even understated. It should not, however, be underestimated by customers or competitors. In the 12 months since it was granted a full UK operator's licence, the company has quietly built an "intelligent" network across the country, leasing circuits and signing interconnection agreements with British Telecommunications and Mercury Communications.



Limited growth at TeleWest. TeleWest, the UK's largest cable communications operator, has announced slightly better than expected figures for residential telephone lines, but fewer television subscribers than had been hoped. Some 83 per cent of all homes marketed in the company's franchise areas now take either cable television or a telephone service, "and in the majority of cases, both," said Mr Alan Michels, chief executive.

He argues that the figure for television and

phone call. For the next six months, customers will be offered the service at no charge as an introductory offer.

In the next year, AT&T expects to have a range of services with which US customers are already familiar including audio and video conferencing, multimedia, managed bandwidth and freephone and reachout services. Most of these services, it has to be said, are already available from "supercarriers" such as Concert, an international joint

venture between British Telecommunications and MCI of the US.

So what is AT&T's unique selling proposition? First, its name. The AT&T brand is recognised globally and has an excellent reputation as a service provider. Second, it plans to offer personalised services based on a computerised customer database which enables AT&T to draw together all the information it has on any particular customer.

## Shake-up ahead for government offices

**By Michael Skapinker, Aerospace Correspondent**

Further reforms to the government machine were announced yesterday, including a secondment scheme with private companies and a drive to extend outside recruitment into middle management positions.

Mr Michael Heseltine, deputy prime minister, made clear he would step up the reorganisation of government departments.

He denied that the changes had demoralised staff or were connected with the increasing number of leaks of government documents from within ministries. But Mr Heseltine warned that leaks were in danger of harming relations between ministers and officials. "They create suspicions which lead to the politicisation of the civil service because politicians are under pressure to withdraw from dialogue with them," he said.

Mr Heseltine announced that a white paper on the training and development of government officials would be published in the first half of the year. Measures involving British Petroleum and the National Westminster Bank group. Graduate recruits in those companies would be offered work experience in ministries, and new entrants to ministries would be seconded to the private sector.

Mr Heseltine made clear that job cuts in the government machine would continue. The number of civil servants has already been reduced to 508,000, 65,000 lower than in 1982, and was expected to fall below 500,000 this year. "We have always believed we need a smaller, better paid civil service," he said.

## 'A British disaster, not just a Dutch disaster' Short Brothers says 800 jobs are at risk in Belfast

**By Michael Skapinker, Aerospace Correspondent**

While Fokker's troubles have raised most concern in the Netherlands and Germany, British companies stand to be hit hardest. The Fokker 70 and Fokker 100 jets are more British than they are Dutch or German. Rolls-Royce, based in the English Midlands, city of Derby, supplies the engines; Short Brothers of Belfast the wings; and Dowty, part of TI Group, the landing gear and other components. There are many other UK companies which supply components to Fokker.

One UK aerospace executive said yesterday: "It's a British disaster, not just a Dutch disaster." While Rolls-Royce said it did not think it would have to reduce employment if Fokker collapsed, Shorts said

800 jobs were at risk. But other UK Fokker suppliers have been careful to develop a range of customers to reduce their dependence on Fokker.

Flight Refuelling, which is part of Cobham, the aerospace engineering group, provides Fokker with fuel system components and has been a supplier to the Netherlands company for decades. Mr Robin Clark, managing director, cannot believe the Dutch company will simply disappear.

Nevertheless, Fokker accounts for only 2 per cent of Flight Refuelling's turnover. Mr Clark does not believe any of his 1,000 employees will lose their jobs if Fokker collapses.

Other customers include Boeing and McDonnell Douglas of the US and British Aerospace.

But Mr Richard Marton, chief executive of BSG International, said his company real-

ised some years ago that it would be wise to reduce its dependence on Fokker. L.A. Bumbold, a BSG subsidiary, makes aircraft seats, galleys and kitchen equipment for Fokker.

Five or six years ago, Mr Marton says, the Fokker business was worth hundreds of thousands of pounds to BSG. But the UK company began to wonder about Fokker's future as a small manufacturer in the highly-competitive regional aircraft market. "I wouldn't say we were frightenedly clairvoyant, but we did have our concerns," Mr Marton said.

Today, BSG's Fokker order book is worth no more than £15,000. The company supplies seats to Boeing and to airlines such as Swissair, Singapore Airlines and Cathay Pacific.

## Business warned on EU currency

**By Richard Lapper**

Changes in European interest rates carry potentially serious implications. Rates - and hence borrowing costs - vary sharply, partially reflecting the strength or weakness of national currencies.

After monetary union, debt denominated in weaker currencies, such as the Italian lira, will be converted to the new stronger European currency but repayments will continue to be at the original interest rate, potentially adding to a company's debt servicing burden.

The association also noted legal uncertainties surrounding Euro, pointing out, for example, that the commercial rationale for long-term currency swaps will disappear.

Potential benefits are likely to be long-term and difficult to quantify, including the elimination of foreign exchange transfer costs and an expected decline in the volatility of interest rates.

Businesses are failing to gear up sufficiently to the potential costs of economic and monetary union, the Association of Corporate Treasurers, warns in research published yesterday.

The association, which represents financial risk managers at more than 1,000 companies, also warns businesses that monetary union is likely to occur in some form, with or without British participation.

"While the timetable may well change, it does seem that some form of Euro will happen," said Mr Jeremy Wagener, the association's director-general. "We are putting our members on amber alert because something is going to happen. There may be pitfalls for the unwary."

Many companies have yet to address the practicalities likely to be involved, said the association.

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## Labour party is shaken by dispute on school choice

**By Robert Peator, Political Editor**

Mr Tony Blair, leader of the opposition Labour party, has staked his leadership on keeping Ms Harriet Harman as his chief health spokesman in the House of Commons, as signs emerged of a damaging split at the top of the party over her decision to send her son to a selective grammar school.

Mr John Prescott, Labour's deputy leader and a reluctant convert to Mr Blair's modernisation of the party, is expected to raise his concern about her choice of school at a shadow cabinet meeting this afternoon, according to his close colleagues. Other shadow ministers said they would do the same.

Ms Harman, the wife of a senior trade union official, is

an important supporter of Mr Blair's "modernising" tendency in the party. But it has a long history of opposition to selective schools and most grammar schools were turned into "non-selective" comprehensives by Labour governments in the 1970s. The Harman incident is seen as one of the most serious for Mr Blair since he became party leader in 1994.

He said in the House of Commons yesterday that he would not "buckle" in the face of

pressure for Ms Harman to go. He reinforced the message last night when he told colleagues that it is time to "close ranks" against what he described as the "squallid hounding" of Ms Harman.

He sees the issue as a trial of his determination to reform party policy and make it electable. "We will not give an inch," said one of his friends.

His biggest test is expected to be this morning's meeting of the parliamentary Labour

party, when many of the party's MPs will express their fury at Ms Harman. She has refused to leave the shadow cabinet over the school affair, and - in the toughest challenge of her parliamentary career - she is expected to explain her decision.

Several Labour MPs have written to Mr Blair, including the leftwinger Ms Alice Mahon, who said Ms Harman's position was "untenable".

Some front benchers, includ-

ing a number who have been strong backers of Mr Blair, also showed less than overwhelming support for Ms Harman. It was a "matter for Harriet's conscience whether she resigns", in the words of one.

Mr Blair has been surprised by the depth of feeling in the parliamentary party against Ms Harman, although he blames the media and the governing Conservative party for "blowing the issue out of proportion".

## UK NEWS DIGEST

### \$1.5bn bill for computer crime

Computer crime could be costing UK businesses up to £1bn (£1.5bn) a year, according to the big insurers, which said yesterday that insurance claims alone are running at £200m a year.

"Taking into account non-insured losses, lost business opportunities, lost production and reduced customer service, the true cost to industry is likely to be much higher than £300m," the Association of British Insurers, which represents larger insurers, said yesterday. The association said some of its members report that computer crime is increasing faster than any other type of crime. Despite an easing in chip shortages, no end appears to be in sight.

It warned that "constant technological changes and increasing demand for computer equipment mean that this crime will continue to rise unless businesses urgently review their security precautions and upgrade them if necessary."

It added that the black market in computers and their parts is growing rapidly because of fluctuations in legitimate supplies, the high value of easily removed and concealed parts such as chips, and the international nature of the market for stolen equipment.

### Railtrack expects cost-cutting

Railtrack, the owner of the national railway network's track and signalling, says it will be able to cut investment costs by at least 30 per cent as a private company because it will be free to plan in the long term more effectively. The company expects to carry out rail investment projects at least 30 per cent more cheaply than was possible under state ownership, Mr Brian Mellitt, engineering director, said yesterday. This was partly because it would no longer be hampered by the need to plan spending annually.

The past 12 months have been devoted to preparing the company for a stockmarket flotation in May, so little has yet been achieved by cost savings, directors said at the announcement of the company's results for the six months ended September. Railtrack made an operating profit of £151m on turnover of £1.14bn in its first set of interim results compared with a profit of £266m in the year ended March 1995 on turnover of £2.27bn.

### Drug company to cut jobs

Rhône-Poulenc Rorer, the French controlled US pharmaceuticals company, is to cut 140 out of 470 sales and marketing jobs in the UK following its acquisition last October of Fisons, a UK rival. The jobs will be lost from Eastbourne, RPR's UK headquarters, and Coleorton in the English Midlands, a Fisons site. Some sales staff not based at those sites will also lose their jobs.

The job losses do not cover any reorganisation of manufacturing, drug and medical device development and corporate functions of RPR and Fisons in the UK.

### Jaguar regains popularity

Jaguar this year has regained its marginal lead as the car company most favoured by chief executives, according to the Chief Executive survey, which operates some 65,000 cars on behalf of UK businesses. Jaguars this year are being chosen by 29 per cent of chief executives compared with 28 per cent opting for Mercedes and 23 per cent for BMWs, according to a Cowie survey of 200 CEOs this month. The Cowie statistics are broadly in line with those of other independent analysts.

Last year, according to the Cowie surveys, Jaguar had to share top spot with Mercedes on 28 per cent followed by BMW on 22 per cent and Rover trailing in fourth place with 8 per cent.

### Chancellor upbeat on economy

Mr Kenneth Clarke, the UK chancellor, last night defended his Budget forecast of resurgent consumer spending this year as official figures showing a rapid increase in the amount of money circulating around the economy lent support to his view. But his comments coincided with an unexpectedly downbeat survey of manufacturers by the Confederation of British Industry. This showed business confidence falling for the third quarter in succession and new orders stagnating for the first time in more than two years.

The CBI expects the economy to continue growing at less than its long-term trend rate during the first quarter of 1996. It also expects 23,000 factory jobs to be shed during that period, twice as many as in the previous three months. Nevertheless, Mr Clarke told the British-American Chamber of Commerce that 1996 would be another good year for the economy and that "the pundits who are being more pessimistic will be proved wrong".

### Pension reform recommended

An independent inquiry has called for a radical reform of UK retirement benefits that would guarantee higher pensions for lower earners and compel some higher earners to save for their own pension.

In particular, the Retirement Income Inquiry proposes an "assured pension" that would be much higher than the current basic state pension which it would replace. It would be paid on a graduated scale, with the largest payments going to the poorest people. Also, those who could afford to would be compelled to contribute a minimum amount to some form of long-term savings scheme, either an occupational or personal pension or a new National Pension Scheme set up by government but administered privately. Contributions would be shared between workers and employers according to a formula to be agreed later.



Harriet Harman: rejects leaving calls to quit



BUSINESS AND THE ENVIRONMENT

Will Allen, a cotton farmer in California's San Joaquin Valley, is one of a small but growing band of US farmers trying to shift production away from synthetic chemicals to organic methods. It is an uphill struggle.

Allen, a life-long farmer, is also head of the Sustainable Cotton Project, an alliance of small farmers supported by environmental groups such as the Pesticides Action Network, developing new, efficient methods of organic production.

In the past 50 years, cotton production has depended heavily on synthetic chemicals. World cotton production, at around 18m tonnes a year, accounts for about 10 per cent of world pesticide use, even though cotton occupies about 0.5 per cent of agricultural land, according to the Pesticides Action Network. Fertilisers and chemicals account for a full third of cotton farmers' costs, according to California's agriculture department.

Soil sterilants, fumigants, fertilisers, herbicides and defoliants are also seen as crucial to modern production methods, as is intensive irrigation. But recently there has been growing concern about the environmental impact.

At one farm that uses synthetic chemicals, one of the biggest operations of its kind in the world, occupying nearly a whole Californian county, the cotton plants stretch for miles. But the ground is caked with salt. Drainage ditches reek of chemicals and appear to be devoid of life.

Organic production - without the use of synthetic chemicals and heavy water use - is negligible, mainly because of high conversion costs and a perception of high risk. Organic cotton accounts for no more than one bale in 400 produced in the US, and most mainstream growers and analysts discount it as marginal to a US crop worth about \$5bn (£3.2bn) a year.

But, increasingly, more small farmers are turning to organic methods. In 1989 around 100 acres in California were planted organically. In 1994 that number had increased to 15,000. And there are small pilot projects in many other countries including Brazil, Argentina, Senegal, Turkey and Australia. Allen argues that the high productivity achieved through the use of synthetic chemicals is a short-term gain and that the reality is a toxic treadmill as pests develop resistance. New pesticides can cost millions of dollars to produce, and, with insects developing resistance in 10 years or less, development costs may become prohibitive.

"At first [pesticides] did in fact solve our problems," says Allen, "but now, with the use of ever more toxic chemicals, crop losses of 20 per cent are not uncommon."

# Cotton tales

Small farmers are turning their backs on pesticides in favour of organic methods, writes Caspar Henderson



Organic cotton accounts for no more than one bale in 400 produced in the US

Allen points to other problems: the contamination of ground water and the increasing salinity of the soil due to what he sees as over-irrigation. Local people complain of persistent flu-like symptoms after fields are sprayed, and there are suggestions of a link between cancer clusters and agro-chemicals.

David Guthrie, manager of cotton agronomy and physiology at the National Cotton Council (the main US industry association), says environmental groups exaggerate the damage caused by conventional methods. They "do not use more pesticides than [for] any other commodity... historically, cotton used chemicals damaging to the environment, but they have long since been eliminated from the arsenal".

Some analysts pin hope on advances in biotechnology. Genetically-engineered seeds are already being produced, but they are more

expensive than conventional seeds. Advocates of biotech production, however, say biotech seed will still need inputs that harm the environment.

Since 1990 several leading clothes manufacturers in the US have produced a few lines made from organic and what is known as transitional cotton (produced with fewer synthetic inputs). One Californian clothing maker is shifting its entire output to organically-produced cottons. Patagonia, a specialist in outdoor wear, will use nothing else in its spring 1996 cotton lines.

It may be a risky step - organic cotton is currently 15-20 per cent more expensive than conventionally-produced cotton. Its garments will cost around 10 per cent more without any apparent difference in quality. Yvon Chouinard, Patagonia's founder and chief executive is convinced the move makes sense:

"We're asking our customers to split the difference: to pay a little extra now to save on the clean up bill later."

But, with sales in 1994 of more than \$150m, Patagonia is a small player in an industry dominated by giants.

Advocates of natural methods point out that organic production depends on a biological rather than a chemical cycle. Natural insect predators, such as lace wings which prey upon boll weevils, replace pesticides; plants that enhance soil health replace chemicals that kill cotton pathogens. Improved soil structure reduces the need for water so less salt accumulates. But the methods are far from perfect. Substantial crop losses can still occur.

And organic production costs more; as yet there are no economies of scale and labour costs are greater. Weeding and composting requires a large labour force, skilled in organic production methods. Nonetheless, the price difference between organic and conventional cotton has halved in the past two years.

The Sustainable Cotton Project has sought to influence users of the product, as well as its producers, taking representatives of clothing companies into the cotton fields.

Even so, difficulties continue. "Financing has been very difficult at every stage of the production cycle... I know growers who have had to leverage their land and their buildings - not just their crops - just to get a loan."

The project invited officials from the US Department of Agriculture to see working organic cotton programmes. Then they turned to the bankers: "The bankers notice what everyone else does: that after years of mining this ground and putting nothing back, life is starting to regenerate this soil."

Organic producers acknowledge that the future of organic cotton lies with the consumer. In Europe, the demand for organic cotton is greatest in Germany, Scandinavia and Switzerland. But, says Jacqui Duff of the Cotton Council International in London (the foreign arm of the US trade association), consumers in the UK, Italy and France show very little interest in organically-produced cotton goods.

Patagonia, meanwhile, is staking its future on change. Chouinard is convinced the company is merely establishing a lead that others will eventually follow.

"It's only one piece in the environmental puzzle. Making organic cotton entails practices that pollute: mechanical pickers guzzle gas, we use harmful dyes and we ship goods too many times at too many stages. All of these issues have to be addressed. But we can switch to organic cotton now."

MANAGEMENT

# Look out for red plastic feet

Peter Marsh tells how humour is encouraging many employees to come up with cost-cutting suggestions

The next time you enter an office or factory, look out for red plastic feet stuck on floors or being waved in the air. If you also spot signs proclaiming BAD or QED, you will have wandered into a corporate brainstorming session with a difference.

The red feet and the acronyms were dreamed up in the 1970s by George Schmidt, president of Advanced Management Group, a management consultancy in Napa Valley, California. The idea is to use humour and simple slogans to put employees in the mood to come up with suggestions about cutting costs or improving products or service.

Over the past 20 years Schmidt's ideas have been taken up by more than 6,000 companies around the world, mostly in the US but also including about 1,000 in the UK. The red feet, says Schmidt, are intended as "teasers" to relax people and "engage their curiosity". The acronyms stand for Buck A Day, or the UK equivalent, Quit Every Day. They are meant to ram home that even trivial-sounding ideas can improve a business's profitability.

The feet and signs feature in discussions organised by two consultancies which sell Schmidt's ideas on either side of the Atlantic - Service Quality Institute, of Minneapolis, and IML Employee Involvement, based near Bristol in the UK. Under a deal in 1994, Service Quality Institute took the rights to exploit Schmidt's BAD methodology, while IML, which previously had a licensing deal with Schmidt, now pays royalties to the Minneapolis business. Companies which have used the concepts include General Motors, Mobil, Harley Davidson, Hambros Bank and the Nationwide building society.

One person who used the Schmidt ideas - transmitted via a six-week programme involving IML last year - is Pam Buckton, operations director of the retail services division of Yorkshire Bank. This division of the UK high street bank has 300 staff based near Hull and handles the credit business of several UK retailers

including MFI and British Home Stores.

Buckton says the IML project, which cost about £15,000, helped staff to work together better in teams. It generated 1,200 suggestions from employees about how to improve the business, from making sure the lights were turned off at night to new ways of using computers. The fee covered consultants' time, publicity material, "ideas cards" for encouraging employees to come up with suggestions and hundreds of small prizes such as mugs and pens to reward good ideas. "The

director at the industrial conglomerate IIT and now one of the US's most noted quality gurus. "We wanted to translate the idea of cost reductions, which many executives dress up in complex language, into a term palatable to ordinary employees," says Schmidt. The QED slogan was invented later as a way to bring the ideas to the UK.

According to Nick Thornely, chairman of IML, as important as the snappy slogans is getting the brainstorming sessions. Managers have to break down the barriers that frequently stop staff coming up with suggestions "for fear either that no one will listen to them or because they think they will make a fool of themselves".

Another crucial aspect, according to John Tschohl, president of Service Quality Institute, is to publicise as widely as possible the suggestions that people come up with.

"Recognition is very important," says Tschohl. "People will work better if they feel they are loved and appreciated, but it's surprising how many companies fail to realise this." The handing out of prizes - even token ones with a frivolous feel - is an important part of the campaign.

Even allowing for the fact that people laugh at different things, the use of jokey themes seems generally to work, Thornely says. He reckons that people put off by the choice of humour are more than outnumbered by those encouraged to relax. Both IML and Service Quality Institute also offer an unusual guarantee. If companies fail to recover the consultancy costs through useful suggestions that emerge, they get the shortfall refunded.



cost savings more than paid for the project," says Buckton.

Another fan of the Schmidt-based techniques is Chris Johnson, managing director of the UK arm of BBA Friction, one of Europe's biggest makers of vehicle brake pads. With the help of IML, in 1993 BBA organised a QED programme for its 1,000 employees at its factory in Cleckheaton, near Leeds.

"We had 2,852 suggestions in two weeks, more than we had in the previous five years," says

## FINANCIAL TIMES BUSINESS NEWS

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# What's blue and puffs? Live TV

For all the talk about the diversification of television now that the old problems of wavelength scarcity have been sidestepped, there has actually been disappointingly little change in programming. True, thanks to the VCR revolution we can now watch at a time that suits us, but what we record are the same old programmes. Video shops rent and sell many movies which would not be screened by terrestrial television, but they were always available in the cinema. Satellite channels show more soccer or films than we ever got from the established channels, but the material does not look any different. How could it? Most of it has been bought from the old channels or from sources which used to supply them, though at prices now hugely inflated (and passed on to us, of course). And cable television has been slow to introduce anything of its own.

So even though we can now receive 46 channels off the cable in north-west London, it all looks pretty much as television always has. Or it did until a couple of weeks ago. Now there is one cable channel which is proving that television can be done differently. Discriminating viewers may find it quite ghastly, but nobody can deny that Live TV is different and, who knows, given the sales of *The Sun* and the *Daily Mirror*, it may end up proving remarkably popular.

This is the cable channel launched by Mirror TV under the fine hand of Janet Street-Porter who decided to aim it at 18- to 24-year-old club goers. Since they watch very little television during the day and into clubs in the evening this looked like a high-risk policy. Sure enough, the moment Street-Porter took a few days holiday her superior, Kelvin MacKenzie, former editor of *The Sun*, started booting out the rap groups and bringing in rugby league. JSP came back from holiday and promptly left the station. Now MacKenzie is busy turning it into an electronic version of *The Sun*, or

the nearest that can be managed.

His most notorious innovation has been the television equivalent of the topless "Page Three Girl": *Topless Darts* every night immediately after pub closing time. But the revolution does not stop there. Whereas news bulletins from the BBC, ITN, CNN, and Sky News are virtually interchangeable, all being read in headmasterly tones and pitched at a level somewhere between the *Daily Mail* and *Daily Telegraph*, the bulletins on Live TV aim for a tabloid audience. They are brief, "personality" biased, and much more likely to be about the lottery than about Bosnia. What is more, just behind the news reader's right shoulder sits News Bunny, an actor in a rabbit outfit who gives a thumbs-up for good news and drags his ears down over his face for bad. Last week he also swigged from a bottle during one bulletin and nipped up a step ladder to change a bulb during another. The news made with *People* which lasts about two minutes and contains gossip items about the likes of Patsy Kensit, Richard Branson, and Madonna.

We have talked blithely in the past about the arrival of "tabloid television" without realising how modest were the changes before us. Now we have the real MacKenzie we see what tabloid television can really mean. The soap opera *Coronation Street* which is shown at 5.00 am with repeats at 9.00 pm and then 10.00 am the following morning, is promoted with the promise "You're never more than five minutes from a snog". Superstition plays a big part in the schedules. There is *Weird Night*, *Fate And Fortune* ("If you'd like yer runes read"), *The Mysterious West* which looks for ghosts in Cornwall, and a whole raft of programmes in which people with funny clothes read tarot cards ("Have you actually gone into a new area of work in the last year?" "No" - "Well let me open up on that a little bit...") And there is astrology in *Russell*



The News Bunny: like it or not, Live TV at least proves that television can be done differently

*Grant's Age Of Aquarius*, though he, too, now reads the cards.

Although the BBC brought us the Princess Diana interview, mainstream television has generally handled the troubles of the royal family with kid gloves. Not so Live TV. On Monday they gave us *Diana, The Marriage Breaker* with the promise of *Camilla - Portrait Of A Mistress* to come, with material at least as explicit as what you find in the tabloid papers, including extracts from the notorious "Squidgie" and "Camillagate" tapes. At night there is *The Sex Show* which readily displays stills from top shelf magazines, and *Stand Up Live* in which comedians such as Steve Boardman and Mike Reid tell the bluest jokes over, though prohibitively brief,

combined accuracy and wit. Much of it may have been vulgar and trivial but that was the intention and the level of entertainment throughout was high. From the splash to the sports briefs it reeked of expertise.

The same cannot be said of Live TV. While Page Three girls, whether or not you approved of them, were good-looking and extremely well photographed, the women in *Topless Darts* are often homely, at best, and drearily filmed (on cloudy days on Bondi Beach for some reason). Watching *Coronation Street*, set in the offices of a television company and shot in the offices of Live TV, makes you realise that *Coronation Street* and *Prisoner Cell Block H* did not, after all, get anywhere near the nadir of

Music in London

# Heartlifting Holzmaier

For the Austrian singer Wolfgang Holzmaier's recital at the Wigmore on Friday, it was standing-room only. Should you hear his recent Philips CD of Schumann's *Dichterliebe* cycle and the op. 24 *Lieder*, it will explain why.

A deceptively plain address, an appealingly personal, non-heraldic timbre, unflinching devotion to putting the words across with transparent sense (thereby fulfilling every good composer's intentions), but no attempt whatever to copy the reverent, almost hieratic style of the just-past generation of singers when tackling the classics. Just now, Holzmaier's style is a simple, heartlifting tonic.

Schubert and Schumann wrote a few songs for soprano and bass, but mostly they settled for a middle-voice, usually masculine, in a middling range - accessible to most voices, without extremes of high or low. Modern singers, however, are pressed to choose early to become tenors or baritones, at the expense of cross-range singing. (Even in his 20s Olaf Baer, for example, refused to risk the top A in "Ich grulle nicht", which *Dichterliebe* crucially needs.)

Holzmaier is a true baritone. He has the range to sing the top A in "Ich grulle nicht", which *Dichterliebe* crucially needs. He has the range to sing the top A in "Ich grulle nicht", which *Dichterliebe* crucially needs.

He boasts good French, rare among German baritones, so after the interval he and his energetic accompanist Gérard Wyss moved on to Duparc and Fauré. There, the sentiments were more confident than the style. In Duparc's svelte, rippling piano-paris Wyss was inclined to splash; and in the dewy *La Bonne chanson* there was so much petulant passion, so many sudden surges and abrupt wits, that Fauré's own seductive smoothness and balance were rudely compromised.

Half the charm of Fauré lies, after all, in the way that intense feeling emerges from his delicately modelled structures. Bumps are not allowed; they would throw the mechanism out of gear. In this music, one would like to hear Holzmaier paired with some old-fashioned, well-schooled French pianist; it would do him good, without dampening his natural ardour.

David Murray

# Hamelin plays Lizst

Marco-André Hamelin, the French-Canadian virtuoso, has clearly found his audience as well. The Wigmore Hall was also packed last week for his all-Liszt recital. Until now, his London appearances have mostly directed his astonishing powers to rare, out-of-the-way pianist-composers like Charles Alkan; but his Liszt programme offered a broad compass, from the brilliantly superficial Hungarian Rhapsodies - mostly on "gypsy" themes concocted by composers of the previous generation - to the late, visionary experiments.

About those last, I share Charles Rosen's opinion: seriously interesting but not greatly significant, whereas a lot of Liszt's earlier, flashier pieces are (like it or not) imperishable contributions to the piano repertoire. Hamelin dealt with them all, flashily and late-experimental, quite evenhandedly. He split out his Hungarian Rhapsodies nos. 10, 12 and 2, if you want to know, though it hardly matters - with intense conviction; gorgeously rich, balanced sound in each "lassu"; the languidly sexy opening, and then a brilliant dash-away in the "triss", where anything goes as long as it is exciting. Sensational *glissandi*, under perfect control; incisive rhythmic snap and pounce; wonderfully precise, crystalline sound.

D.M.

Opera in Frankfurt/Andrew Clark

# Samson and Delila join the beau monde

consists of an under-utilised orchestra, chorus and back-up staff, working in a perfectly equipped theatre which remains dark for two-thirds of every month. But they are making the best of strained circumstances. The repertoire is interesting, standards remain high and there are full houses.

The hero of the hour is the Frankfurt Opera's artistic director, Sylvain Cambreling, who could easily have walked away when his initial ambitions were not fulfilled. He has used the longer rehearsal periods profitably, waived his fee for some performances and become the public face of the company. In doing so, he is

continuing a tradition that extends back through the Glen and Dolmányi eras to the 1950s, when Solti was *Generalmusikdirektor*. Conductors have always been the key to the Frankfurt Opera's reputation, and Cambreling is no exception.

Latest addition to the repertoire is *Samson et Delila*, a work which first came to life at Weimar (thanks to Liszt) but is now rarely played in Germany. Cambreling's experience with the score - he conducted an acclaimed staging at Bregein in 1988 - was crucial to the production's success. It was played without an interval, allowing Saint-Saëns's music to spin a web of mesmer-

ising colour and symphonic coherence. Within this frame, Cambreling paced each scene with unerring skill. The luxuriant choruses were particularly well blended, their seductive solemnity redolent of both *Paris* and *Les Troyens*.

Unlike those two masterpieces, *Samson et Delila* lacks dramatic or philosophical depth. That did not stop the Frankfurt producers, Veit Volker and Barbara Mundel, from throwing their own interpretative blanket over the biblical setting. The plot was moved to Paris in 1870, the period of the opera's composition.

The Hebrews became blood-thirsty Communards, the Philistines a top-hatted, frilly-knuckered *beau monde*. Samson was a Napoleonic rabbi-rouser, Delilah a *belle-gosse* whose, while the High Priest orchestrated events like a Mephistophelian ploop. Together they inhabited a world of sex, crime, ballet and bathos - a *melange* of associations as Offenbachian as they were often mystifying.

But on its own terms, the production developed an enthralling, indefinable sweep. It was greatly helped by Hermann Feuchter's single set - a cavernous saloon-cum-gunroom - which adapted itself imperceptibly to the needs of each scene. The detail had been meticulously rehearsed, and all was subsumed into the larger picture. Instead of contradicting the music, the action seemed to evolve out of it - above all in the bacchanale, a delirious send-up of period manners.

At first sight, Hubert Delamboy and Margit Neubauer made a decidedly unromantic couple. Delamboy's Samson was stockily unheroic, while Neubauer's ripe, rouged seductress resembled a vamp. But they quickly established their authority, he summing the necessary vocal heft and she singing with plenty of sap. Philippe Rouillon was a High Priest of sinister authority, and every other part was strongly cast. From start to finish, the performance was a virtuoso display of theatrical imagination, worthy of the traditions of the house.

The Frankfurt Opera is recovering from one of the most difficult periods in its long and distinguished history. Just over a year ago, it was threatened with closure for half the 1995-6 season. The city's coffers were empty, the culture budget had been slashed and the company was divided about how to counter the threat to its existence.

The worst now seems to be over. Divisions have healed, the general mood is constructive. A campaign to solicit private contributions for new productions met an enthusiastic response, and the season has gone ahead as planned. Money still a problem. Only 100 performances are scheduled - about the same as last year, but half the number of 10 years ago.

There is no longer a resident ensemble: the "company" now

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Midnight Financial Times Business Tonight

INTERNATIONAL  
**ARTS GUIDE**

**AMSTERDAM**

**CONCERT**  
concertgebouw  
Tel: 31-20-5730573  
Robert Schumann Ensemble:  
reform works by Bruch, Schubert, Tchaikovsky and Franck; 8.15pm; Jan 30  
**JZZ & BLUES**  
muis Tel: 31-20-6233373  
Ab Baars Trio and Steve Lacy:  
jazz, double bass-player Wilbert Joods and drummer Martin van Nijmegen join forces with saxophone Steve Lacy; 7pm; Jan 26

**BERLIN**

**CONCERT**  
Orchestra Hall  
Tel: 49-30-254880  
Sinfonie Orchestra Berlin: with conductor Jon Bara Johansen, flutist Naoko Ogihara and pianist Jang-Hee Hyun perform Grieg's "Symphonie No. 1" and Liszt's "Symphonie Fantastique"; 8pm; Jan 27  
**NCE**  
atsoper unter den Linden

Tel: 49-30-2082861  
● Le Concours: a choreography by Maurice Béjart to music by Hughes Le Bars, performed by the Ballett unter den Linden; 7.30pm; Jan 26, 27, 28 (6pm)  
**OPERA & OPERETTA**  
Deutsche Oper Berlin  
Tel: 49-30-3438401  
● Die Zauberflöte; by Mozart. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Reinhard Hagen, Amanda Halgrimson, Carol Malone and Gerd Feldhoff; 7pm; Jan 27

**BONN**

**OPERA & OPERETTA**  
Oper der Stadt Bonn  
Tel: 49-228-7291  
● La Rondine; by Puccini. Conducted by Eugene Kohn and performed by the Oper Bonn. Soloists include Hasmik Papian and Birgit Beer; 8pm; Jan 26

**CHICAGO**

**CONCERT**  
Orchestra Hall Tel: 1-312-435-6868  
● Chicago Symphony Orchestra: with conductor Daniel Barenboim and pianist Martha Argerich perform Liszt's "Piano Concerto No. 1" and Beethoven's "Symphonie Fantastique"; 8pm; Jan 27

**COLOGNE**

**CONCERT**  
Köln Philharmonie  
Tel: 49-221-2040820  
● Chamber Orchestra of Europe: with conductor Pierre Boulez, mezzo-soprano Wendy Hoffman and

flutist Jacques Zoon perform works by Stravinsky, Mahler, Boulez and Bartók; 8pm; Jan 25

**FRANKFURT**

**EXHIBITION**  
Städtisches Kunstinstitut  
Tel: 49-69-905088-115  
● Wege zur Abstraktion: sculptures from the museum collection by artists such as Rodin, Renoir, Archipenko, Calder and Barys; to Jan 28

**LONDON**

**CONCERT**  
Barbican Hall Tel: 44-171-6388891  
● Symphony No.1 in A-flat; by Elgar. Performed by the Guldballett Symphony Orchestra, conducted by Christopher Seaman; 1pm; Jan 26  
Wigmore Hall Tel: 44-171-9352141  
● Borodin String Quartet: perform Tchaikovsky's "String Quartet No. 2", R. Schumann's "String Quartet No.3" and Schubert's "String Quartet No.12 (Quartettstutz)"; 7.30pm; Jan 26  
**OPERA & OPERETTA**  
London Coliseum  
Tel: 44-171-3001111  
● Les Pêcheurs de Perles; by Bizet. Conducted by Emmanuel Joel and performed by the English National Opera. Soloists include John Hudson and Elizabeth Woollet; 7.30pm; Jan 25, 27

**LYON**

**OPERA & OPERETTA**  
Opéra de Lyon Tel: 33-72 00 45 45  
● Die Zauberflöte; by Mozart. Conducted by Kent Nagano and performed by the Opéra de Lyon.

Soloists include Christiane Oelze, Veronica Cangrani, Natalia Dessay and Thomas Mohr; 5pm; Jan 27, 28

**NEW YORK**

**CONCERT**  
Avery Fisher Hall  
Tel: 1-212-875-5030  
● American Symphony Orchestra: with conductor Leon Botstein and cellist Yo-Yo Ma perform works by Schoenberg, Goldschmidt and Mendelssohn; 8pm; Jan 26  
**EXHIBITION**  
Whitney Museum of American Art  
Tel: 1-212-570-3600  
● Best culture and the New America: 1950-1965: this exhibition of more than 200 objects, including paintings, sculpture, film, installations, music, books and original manuscripts, examines the artistic legacy of the Beat Generation. The writers Jack Kerouac, Allen Ginsberg and William S. Burroughs met in New York in 1944 and became catalysts for the Beat movement, that denounced militarism, McCarthyism and the complacent affluence of the Eisenhower family values. Along with the poetry and literature of that time, new art forms like Assemblage, Happenings, installation art, and independent cinema will be shown in the context of the Beat era; to Feb 4

**PARIS**

**CONCERT**  
Maison de Radio France  
Tel: 33-1 42 30 22 22  
● Orchestre Philharmonique de Radio France: with conductor Herbert Böck, the Choeur de Radio

France, pianist Sylvie Carbonel, soprano Cornelia Hölz, tenor Kurt Azzberger and baritone Stephen Vascog perform works by Prokofiev, Mossovl and Schubert; 8pm; Jan 27

**ROME**

**CONCERT**  
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064  
● Lynn Harrell and Bruno Canino: the cellist and pianist perform works by Stravinsky, Prokofiev, R. Schumann and Beethoven; 8.45pm; Jan 28

**SALZBURG**

**EXHIBITION**  
Rupertinum - Salzburger Landesausstellungen  
Tel: 43-662-90422336  
● Oskar Kokoschka: exhibition of preliminary sketches that Kokoschka (1886-1980) made for his series of 16 lithographs based on Shakespeare's drama "King Lear" (1963); to Jan 28

**STOCKHOLM**

**OPERA & OPERETTA**  
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300  
● Lollis; by Schödnér. Conducted by Marjatta Lehtinen and performed by the Royal Opera Stockholm. Soloists include Lisa Gustafsson, Per-Arne Wahlgren, Björn Haugan and Laila Andersson-Palmer; 7pm; Jan 28, 29, 31

**STUTTGART**

**OPERA & OPERETTA**

Staatstheater Stuttgart  
Tel: 49-711-20320  
● Fidelio; by Beethoven. Conducted by Robert Spano and performed by the Oper Stuttgart; 7.30pm; Jan 25

**WASHINGTON**

**EXHIBITION**  
National Gallery of Art  
Tel: 1-202-7374215  
● The Touch of the Artist: Master Drawings from the Woodner Collection: this exhibition of 114 drawings honours the late Ian Woodner, who over the course of 35 years formed a major collection of old master and modern drawings. Spanning more than five centuries, the Woodner collection presents the history of modern European painting from its first flowering in the early Renaissance through most of the major styles and schools of succeeding centuries until 1900. Centerpiece of the early Renaissance collection, which includes works by artists such as Leonardo da Vinci, Raphael and Albrecht Dürer, is a giant page from Giorgio Vasari's "Libro de' Disegni" (Book of Drawings), onto which Vasari mounted 10 fifteenth century drawings; to Jan 28

**ZURICH**

**OPERA & OPERETTA**  
Opernhaus Zürich  
Tel: 41-1-268 6886  
● Les Contes d'Hoffmann; by Offenbach. Conducted by Franz Welser-Möst and performed by the Oper Zürich. Soloists include Elena Mosuc, Gabriela Lachner and Francisco Araiza; 7.30pm; Jan 25



COMMENT & ANALYSIS

Ian Davidson

# A divisive destiny

The European Union is split between countries which want to join economic and monetary union and those hostile to it

Scepticism over the plan for Economic and Monetary Union in Europe is in vogue again, following last month's public sector strikes in France; the budget overshoot and rising unemployment in Germany; and indications of an economic slowdown in Europe generally.

Jacques Delors, ex-president of the European Commission and a leading architect of the Emu project, now doubts that monetary union can happen on schedule. Marc Vénot, a top French banker, is pessimistic: "France's chance of bringing down its budget deficits to the Maastricht treaty limits in time to join a single currency on January 1, 1999.

True sceptics go further: Emu is now in jeopardy, because electorates will not stand for budget deficits at a time of slower growth and rising unemployment. Since the only thing holding the Germans to this unwelcome project is the treaty deadline, they argue, any slippage in the timetable may be fatal to the whole project.

But do the sceptics take enough account of the political impetus behind the Emu project? The Maastricht criteria may well have become more difficult. But what would be the political consequences for the European enterprise, and for relations between the core member states, if Emu were to be abandoned? The answer can be summed up in one word: horrendous.

Is it conceivable that core countries would allow the Maastricht treaty to be discarded before it has been tried? Could the German Bundestag deliberately renege on a treaty commitment? Would the French National Assembly really decide to reject the Maastricht criteria, if it meant continuing to submit, for ever, to German monetary dominance in Europe? If these are the choices, it seems to me the answers are self-evident.

Christoph Bertram, former director of the International Institute for Strategic Studies, and now diplomatic editor of the German weekly Die Zeit, takes a robust view. In a new pamphlet, he writes: "Germany and France have a strong interest in maintaining their special relationship... The most prominent example will be their participation in the core group of the countries moving to the third phase [the single currency] of European Monetary Union."

"It is inconceivable," he adds, "that France and Germany will not be among the founding members of this group... monetary union will be the core of political union." The main danger in monetary union is not that it may not happen but that it may split the EU politically from top to toe. The sceptics cite the economic difficulties. But the deep divide is not between those which can, and those which cannot, meet the Maastricht criteria. It is between those which want to take part, and those which are quintessentially hostile.

This is clearly the dividing line which most preoccupies Kenneth Clarke, Britain's European chancellor of the exchequer. Because of the Conservative party's deep antipathy to Emu, as well as to all far-reaching European integration, Britain is curiously locked into a posture of

effective hostility. The question is this: is Britain's long-standing antipathy to the European enterprise so deeply embedded in the national consciousness, and so sharply etched in the minds of Britain's partners, that it has now become a part of the national destiny, from which there may be no escape?

In short, will Emu be the touchstone for an irrevocable beginning of the parting of the ways between Britain and its major partners in the European Enterprise, viscerally antipathetic to the aspirations of founding members. Monetary union is a partial enactment of those aspirations; and it will require a great deal of common political understanding.

By now, other governments have given up hoping that this British government would come round to their point of view. So if, by chance, it suddenly decided it wanted to join Emu, no-one should be surprised if it were kept waiting for two years' apprenticeship in the ERM.

Of course, the Conservatives may not be in power for ever. This raises the question of whether British antagonism to Europe is a Conservative problem, or is it a general British political problem?

Britain's trade union leadership in the TUC has just approved a policy document endorsing monetary union in Europe, at least partly because a united Europe, with its social chapter, seems to offer the best hope of preserving the European social model of social democracy. But Tony Blair's New Labour party remains studiously equivocal on the issue, as on Europe in general. "Labour's albatross," says a trade unionist, "is its short-termism." But perhaps the reality is that Euro-scepticism is endemic in the UK.

will call for total compliance from even the keenest candidates for membership of Emu, it is hard to imagine why it should bend the treaty to make life easier for Britain. For France? Perhaps. For Belgium? Conceivably. For Britain? Never.

Indeed, some people in Germany owe want to add a new unofficial criterion to the Maastricht treaty: a sufficiently pro-European attitude. After 23 years of membership, Britain is still an alien body in the European enterprise, viscerally antipathetic to the aspirations of founding members. Monetary union is a partial enactment of those aspirations; and it will require a great deal of common political understanding.

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Kenneth Clarke: seeking reassurance

\*Europe in the Balance; by Christoph Bertram; Carnegie Endowment, Brookings Institution, Washington DC

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

### Japan may have been slow to catch Internet fever but it will make good its promise in 1996

From Mr Michael Beirne.  
Sir, As so often when the west chooses to poke fun at Japan for being behind the times, there is both reasonable justification for such criticism as well as reason to believe that the situation is changing fast.

It is indeed true, as your article "Drowning, not surfing" (January 22) states, that for many years access to the Internet from Japan was restricted mainly to universities and research facilities (the same was true in

the US and Europe). Moreover, the small and fractured personal computer market in Japan made the situation worse. Expensive, proprietary PC and word processor architectures prevented access to graphical user interface-based networks, such as the worldwide web.

But all that changed in 1995. The centre of the PC market shifted clearly to Windows and IBM-compatible PC architecture. Prices of PCs came in line with world averages and the PC market

experienced tremendous growth. Membership in network services like Fujitsu's NIFTYServe and NEC's PC-VAN each topped more than 1.5m subscribers. Together, the two largest networks added more than 100,000 new members every month.

If 1995 was the year of the Internet in the US, 1996 holds similar promise for Japan. Graduates joining my own company this Spring will be required to study their English - the language of the Internet.

And they will get that news by e-mail, which everyone now has access to, or when visiting the Fujitsu WWW server - which attracts more than 2m visits each month. Japan may have been slow to catch Internet fever, but the bug is spreading fast.

Michael Beirne, public relations, Fujitsu, 1-6-1 Marmouchi, Chiyoda-ku, Tokyo 100, Japan

### Danger of TV A comforting but illogical notion monopoly buyer

From Mr Colin Browne.  
Sir, Last UK sport, January 18) misses the point about television coverage of sports in the UK. The real danger is domination of sports by a monopoly buyer - to the detriment of viewers, listeners and the sports themselves.

The 1990 Broadcasting Act allows all sports events to be bought by a subscription sports channel like Sky Sports. The eight listed events are only prohibited from being sold to a pay-per-view (pay-per-event) basis - though pay-per-view does not yet exist here, six years after the legislation.

In other words, if England were playing Germany in a World Cup final at Wembley, BSkyB could buy the rights and viewers in England would only be able to see the game by buying a dish and taking out a subscription.

There are only a few events most viewers would see as of crucial national importance, and only a few that should therefore be protected by listing to ensure viewers can see them on free-to-air channels.

More importantly, there is a way of freeing sports from the predatory behaviour of a monopoly buyer. That can be achieved by ensuring that for other, non-listed events, live TV rights, live radio rights, and TV highlights have to be sold separately.

No sport could be compelled to bundle all rights together because one media owner demands it. That would enable sports bodies to earn the maximum for their events while guaranteeing viewers and listeners the right to see or hear some coverage of their favourite sports on free-to-air channels. In other words, a win-win situation.

Colin Browne, director of corporate affairs, BBC, Broadcasting House, London W1A 1AA, UK

manage to achieve this. It is a warm, comforting notion, but follow the thought to its logical conclusion: the chief executive who stands before his shareholders to justify a big training initiative, without being able to say that he believes it will lead to profit now or in the future. I am quite sure that chief executive would last no longer in Switzerland than in the UK, and rightly so.

I see nothing wrong in a business model built on a congruence of interest between a commercial organisation and its employees: a healthy company and good people will share the drive for personal

development. This successful, alongside a successful and fulfilling working life, will lead to a certain loyalty on the part of the employee; to a certain "warmth" in the organisation.

But if the congruence of interest no longer exists, for whatever reason, then the time has come to part company. Further development must be sought elsewhere: a viciously (strong, but correct adverb) competitive world leaves no other choice.

David Morgan, Seestrasse 8, CH-8702 Zollikon, Switzerland

### Doubts over presentation of Maxwell case

From Mr Greg Jeffreys.  
Sir, One reads with interest the outrage against the UK's Serious Fraud Office in its failure to convict the Maxwell defendants. Is this logical? How do observers know the SFO made such a poor case? After all, the number of charges was kept efficiently low.

Why don't the lawyers share this baleful spotlight? If the jurors cannot understand the issues - and after 80 days of prosecution, who can earth could? - one must doubt the lawyers' abilities to

understand and represent the information cogently.

Surely any intellectual process which is effectively rewarded for being prolix will be self-polluting? Imagine a self-regulating model whereby pigs determine both the richness and frequency of their meals. What outcome would we suppose? Barristers seem to glory in a persona with which the ordinary juror can achieve minimal empathetic communication (although it may well serve to keep the fob watch and half-moon spectacle industries alive).

Perhaps there is a case for another kind of specialist? A cross, say, between accountant and professional communicator who can go to the quick of a case and help the barrister communicate more effectively.

It would be an unfortunate day indeed if trial by jury failed. The traditional cry of "heads must roll" would be better replaced by a resolve to learn from experience.

Greg Jeffreys, Bromham Hall, Bromham, Bedford, UK

### A poor policy for prisons

From Mr E.A. Kennington.  
Sir, I could understand the announcement of cuts in the budget and staffing level of the prison service in the UK if the government's policy were to reduce prison numbers, so that a smaller prison service was required. However, the government's consistent rhetoric has been to be tough on crime and to lock more prisoners away for longer. This means asking the prison service to do more and more.

There seems to be a disconnection between the government's policy of financial cutbacks and the

increase in activity it is requiring. It is very nice if you can obtain progressively more and more service for less and less cost, but on the whole the world is not like that. I fear that if the level of activity required from the prison service and its level of funding are not kept in balance, the consequences could be more riots, more escapes, and more re-offending.

Alasdair Kennington, Lower Flat, 40 Acton Street, London WC1X 9NB, UK

### En anglais s'il vous plaît

From Mr Graeme Livingstone-Wallace.  
Sir, I refer to your story about French authorities ordering Body Shop to desist from selling products unless they are labelled in French ("Body Shop hit by French move", January 20/21). Can we assume that all French wine sold in the UK will now come with a full English language translation? If not, why not?

Graeme Livingstone-Wallace, 1800 Vevey, Switzerland

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19-22 CART '96 International exhibition of stationery, paper and cardboard products, articles for school and fine arts	28 Feb - 3 Mar FIT '96 International Tourism Exchange	15-16 FLUIDTRANS COMPOMAC 15th International biennial exhibition of Power Transmission Systems and Control and Engineering Design Equipment	18-22 ELEROLUCE 18th International Biennial Lighting Technology Exhibition	4-12 INTERNAZIONALE DELL'ANTIQUARIATO International Antiques Fair	7-11 CONVERFLEX International paper, paper converting and package printing machinery exhibition	
24-28 34' SALONE DEL GIOCATTOLO '96 International Toy Fair Luchinella, South Pavilion	23-25 MIFLOR '96 Floriculture, Plants and Gardening Accessories. International Exhibition Luchinella, South Pavilion		27-31 30' MOSTRA CONVEGNO EXPOCOMFORI International exhibition and conference of Heating, Air-Conditioning, Refrigeration, Plumbing & Sanitary Installations, Bathroom Fixings		22-27 15' INTERBIMMILL International biennial wood processing machinery and accessories exhibition	
28-30 MIAS INVERNALE '96 International sportswear, sport and camping equipment exhibition	14-17 69' MIFEL International leather goods market				22-27 15' SASMIL International exhibition of components for furniture	

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## Dazzled by prosperity

Vietnam's growth rate disguises the gap between cities and rural areas, says Peter Montagnon

With economic growth again over 9.5 per cent last year and inflation edging down slightly to 12.7 per cent, Vietnam has another good economic year behind it. But as the Communist party prepares for a thorough policy review at its eighth congress this summer, a central issue is whether high rates of growth alone will suffice for the longer term.

Indeed, it might be worth settling for a slightly lower overall growth rate if the spread of the country's economic activity could be improved. Vietnam's growth numbers dazzle, but its performance is strikingly uneven. According to the UN Development Programme, growth in the south-east region around Ho Chi Minh City averaged 17.5 per cent in the first three years of this decade; in the poor south central coast it was a mere 1.7 per cent.

The World Bank reckons that about half the country's 75m people still live in absolute poverty, 90 per cent of them in rural areas. Vietnamese economists say annual per capita income in Ho Chi Minh is more than \$800 but in the poorest regions it is just \$120.

Unless Vietnam can find a way of correcting this imbalance, it risks social and environmental problems in its cities which might eventually choke growth altogether.

The benefits of growth in Bangkok have been slow to trickle down to the rest of the country. Thailand wants to push economic activity out into the provinces as a means of relieving the pressure on Bangkok, but there are severe obstacles. The provincial infrastructure is weak, local governments are not strong enough to supervise the process, and the workforce lacks the relevant skills.

At this relatively early stage of its development, Vietnam has a chance of avoiding the worst of these problems. But the question with which the party congress must grapple is how to steer economic policy in the right direction. The temptation for some conservatives at the congress might be to slow down reform altogether and fall back on the more familiar instruments of central planning.

There is an important role for government in helping to bring growth to the countryside, but such government action would not necessarily be incompatible with a free-market approach. Vietnam's rural economy received a boost in the early stages of reform with the de-collectivisation of farming, which helped boost output to the point where the country is now the world's third-largest rice exporter.

But more expenditure is required on health and education to improve the well-being of the population and enhance its skills. Infrastructure has to be improved, with more roads to connect remote areas with the rest of the country.

All of these require money, but other desirable measures are more a matter of deregulation.

One priority is to ensure that small private farmers have fair access to credit. A start has been made with the launch this month of the depressingly named Bank for the Poor, an offshoot of the state-owned Vietnam Bank of Agriculture.

Vietnam also needs to develop small and medium-sized business in the countryside. So far it has nothing to compare with the township and village enterprises which have helped absorb surplus labour in China.

To thrive, however, a small-business sector needs free com-

petition. That means preventing the best land and cheapest capital going to influential but inefficient state enterprises.

It is true that Vietnam's state-owned enterprises, unlike those of China, are not a large drain on the economy. Their share in output has even been growing, partly because their privileged position allows them to cut the best deals with foreign investors. But the risk of not pursuing reform in this area is that state enterprises will end up absorbing too many resources, thereby thwarting development of the private sector.

There may be more immediate kudos in establishing prestige industries, such as cement or steel, than in promoting private-sector employment in the countryside. And in the short term, big investments help to increase the economic growth rate. The short-term returns on urban industrial projects can be three times those on rural ventures, according to some local economists.

Putting resources into health, education and infrastructure pays off much more slowly, but it is necessary to secure sustainable growth for Vietnam in the long term.

This lesson applies to other Asian countries too. Growth cannot proceed indefinitely simply by investing more and more in factories. At some stage it may have to pause while social and infrastructure problems are tackled.

The government has to provide the right environment, but that is not just a question of planning. It must also develop institutions strong enough to enforce market principles.



COMMENT & ANALYSIS

FINANCIAL TIMES

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# The challenge facing Spain

Spain's general election on March 3 is expected to lead to a change of government, with a victory for the Popular Party of Mr José María Aznar over the Socialist party of Mr Felipe González, the prime minister since 1982. Elections may be uncertain, but one thing is not: whoever wins will face formidable economic challenges.

This is the principal lesson of the OECD's latest economic survey, published this week. True, the performance of the economy has improved, with real gross domestic product expected to have risen by 3% per cent last year. This recovery led to a 2% per cent increase in employment and a modest fall in unemployment. This growth has also combined with discretionary fiscal action to lower overall net general government borrowing from 7.4 per cent of gross domestic product in 1993 to an expected 6 per cent in 1994.

Yet not only is fiscal policy well adrift from the targets in the Maastricht treaty, but the new convergence programme is implausibly back-loaded, with planned fiscal adjustments of 1.4 per cent of GDP in both 1996 and 1997. At 5 per cent last year, inflation remains above levels in the core countries of the European Union. Worse, Spain confronts two long-term structural problems: a state pension system that will impose escalating costs in the first half of the next century, and most important of all, unemployment.

Spain's labour market is a disaster since the early 1970s, the measured rate of unemployment has risen from below 3 per cent to 23 per cent; only 47 per cent of people between the ages of 16 and 64 now have jobs, while for young men and women between the ages of 16 and 24 the proportion is about 30 per cent; and just 2 per cent of the unemployed find work or leave the labour force in any month, compared with 37 per cent in the US and 13 per cent in the UK.

This calamity was largely due to foolish regulations. There have been some reforms, notably in 1984 and 1984, among the most important being permission for fixed-term employment. The result has been high security for some, but virtually none for many others. Further reform is needed, not least to alter severance provisions, which are among the most generous of all OECD countries. Also necessary will be a further review of the impact of the unemployment insurance system.

The challenge for the next government is to make the needed labour market reforms, while strengthening the public finances and lowering inflation. It will be quite a trick to pull off. Mr González has been neither able nor willing to do enough. As for Mr Aznar, he talks of curbing public deficits and spending, but is wary of appearing too radical and specific. This may be an astute electoral strategy. But it has also ensured that his promises still fall short of what will be required.

# Whitehall reform

Whitehall's mandarins are used to abuse. Over the past three decades it has been blamed for everything from Britain's class system to its decline as an industrial power. But never before has it faced as serious a challenge as it does today to its integrity.

In typically British fashion, it has happened with virtually no public debate. Yet in the space of barely five years most of the principles underpinning the career civil service created under Gladstone in the late 19th century have been brought into question.

Mr Michael Heseltine, the deputy prime minister, makes few bones about the fact. In a speech last night he promised a second white paper in three years on civil service reform. The last one largely focused on the need for retrenchment and enhanced management skills; this year's will increase momentum behind the contracting out of Whitehall functions to companies, and the need for "revolving doors" between Whitehall and the private sector.

It is ironic that what has not happened. The principle of political neutrality has not been jeopardised. Nor has the commitment to recruitment by merit. Indeed, the emphasis on securing new blood at middle-manager level could be seen as an extension of this principle, provided it is accomplished through normal Whitehall recruitment channels.

Emphasis on improved management skills is also desirable. In the past, civil servants are not policy advisers but service deliverers, and

they are now aware of the fact. There can be no objection in principle to Mr Heseltine's desire for a "smaller, better-paid civil service". However, the notion of a career civil service is in doubt, and this is a cause of concern.

It is not a case of a few more seconds here, or an open competition for a permanent secretary's post there. If the notion, popular in ministerial circles, is accepted that outside appointments are preferable to internal promotions, the civil service may shift into the hands of officials on short-term contracts, concerned as much about their next job, whether in the public or private sectors, as about the good government of the country.

The relative absence of official corruption is a virtue inadequately appreciated in Britain. It would be a tragedy if Whitehall was obliged to reinvent the wheel. The experience of quangos should dispel any notion that serious corruption is somehow un-English.

Questions must also be asked about the semi-autonomous agencies which now embrace most of Whitehall's officials. Lines of accountability are unclear, and the position of chief executives vis a vis their ministers appears highly unsatisfactory.

In part this is because the status of agencies has never been properly determined. In their short history there has already been one serious crisis, concerning the Price Review. Others are bound to follow unless they are placed on a firm statutory footing.

# UK pensions

Yesterday's report from the Independent Inquiry into Retirement Income and Pensions demands for UK pension reform. To judge by the instant, highly critical response to the proposals from Mr Peter Lilley, the social security secretary, there is little chance of the government's taking up the challenge. But if, as many expect, an incoming Labour administration decided to tackle the issue, a wide consensus is beginning to emerge on how reform should proceed.

The starting point of this report is that the system is unacceptable in its present form. The UK has done more than most industrialised countries to restrain the rising cost of state pension provision, but at the expense of rendering that provision inadequate for the poorest retirees.

A central aim of reform must be to improve the position of these groups. The trick will lie in finding a way to do this, not only at a cost that the average taxpayer would find acceptable, but also in a way that would not entirely violate the universalist principles behind the basic state pension.

Re-introducing the link between the basic pension and increases in the average earnings jumps the second hurdle, but falls down at the first. The report estimates that by 2030 this would cost around £30bn more than continuing with present practice.

A better option, proposed by yesterday's Inquiry and the Social

Justice Commission, among others, is to introduce an income-related minimum pension guarantee, set at a higher level than the present state pension. The authors would also abolish the state earnings-related pension scheme in favour of a funded, second-tier state pension system, to which anyone not covered by a personal or occupational pension would have to contribute.

The means-tested component of the minimum pension guarantee would have fewer disincentives to accumulation of wealth than income support, since assets would not be taken into account in the assessment, only pension and other income from prior savings. It would also be much cheaper to administer.

Those determined to preserve the inclusiveness of the old system will reject means-testing altogether, on the grounds that it would ultimately lead to reduced public support for financing state pension provision. But with large tax increases off the agenda for the foreseeable future, a purist insistence on sticking to universalist provision of pensions - as opposed to a universal minimum guarantee - is bound to come at the cost of even greater inequality among pensioners' incomes.

The Labour party can, and should, have a debate about the details of its prospective pension reform proposals - not least the cost. But it should be in no doubt as to the broad outlines.

# Smoke clears after the duel

## Martin Dickson looks at the issues raised in the controversial and colourful battle between Granada and Forte to control the hotels group

Although Granada's convincing victory yesterday brought to an abrupt end the battle for Forte, the aftershocks of Britain's fiercest takeover duel in years will reverberate for a long time.

From the very start, the bid had the potential for high drama. Any big, hostile takeover involving household names - and Forte's range from London's exclusive Grosvenor House hotel to the Little Chef chain of roadside restaurants - will attract more than usual public interest.

Add to the mix a chairman, in the form of Sir Rocco Forte, fighting to retain control of the empire painstakingly built up over half a century by his father, and you have the makings of a business drama quite as compelling as any dreamed up in Granada's television studios.

This, coupled with some sharp swings of advantage as each side changed strategy, and some innovative bid techniques, made the bid the most colourful and controversial since the great pitched battles of Britain's 1980s takeover boom.

There are two main reasons for Granada's victory. First, as to any successful bid, it offered Forte investors a price for their shares that they found attractive. The offer was cleverly pitched: not over-generous, but sufficient for many investors to feel it was significantly higher than the price Forte shares would reach in the foreseeable future under existing management.

Second, those swapping their shares in Forte for Granada paper, rather than taking cash, simply had more faith in Mr Gerry Robinson, Granada's chief executive, to deliver future earnings growth than they did in Sir Rocco. As one fund manager bluntly put it: "I'm with Gerry. He's made me a lot of money over the years."

Mr Robinson's enthusiastic City following is based on his record in turning around the media and catering group, which was in trouble when he joined in 1991 but has seen operating profits almost quadruple since. Granada shares have easily outperformed the market, and he has successfully absorbed two sizeable acquisitions - Sutcliffe, the contract caterer, and London Weekend Television.

He is also a very good salesman. A fast, confident talker with an easy charm, he has a down-to-earth manner and dress sense (bland suits, checked blue shirts) and flatters with the impression of taking you into his confidence.

Forte's shares, by contrast, have underperformed the market for years, thanks to lacklustre profits growth and a low return on capital. Sir Rocco, chief executive since 1982 and chairman since 1982, is a slow, deliberate speaker with an upper-class accent and tailor-made suits to match.

Critics had long questioned whether he owed his position more to lineage than management strength. His image was crucially reinforced on the day the bid was launched, when he was found to be out shooting, rather than at his desk. He subsequently pointed out that such an absence was unusual, while Mr Robinson denied the bid had been timed to cause Sir Rocco maximum embarrassment.

The contrast between the two companies was so great that Granada seemed headed for an easy victory. Sir Rocco joined the battle on November 22. There was such con-



fusion in the Forte ranks that Mr Keith Hamill, the finance director, described it as like "being on the Titanic when the iceberg struck".

Yet Forte quickly pulled himself together, thanks in part to Sir Rocco's tenacity (his City image improved a lot, though not enough, during the bid). He persuaded Mr Roberto Mendoza, a boyhood friend and vice-chairman of the US investment bank J.P. Morgan, to coordinate his advisory team. It is unclear who contributed what to the defence plan, but the strategy's radical nature smacks more of American than British tradition.

Forte announced Britain's biggest-ever share buyback and plans to sell assets representing almost half the group's turnover - most notably its roadside restaurants business, which Whitbread agreed to buy for £1.05bn. Instead, it would concentrate purely on hotels, where Sir Rocco's greatest expertise was deemed to lie. It sought to capitalise on the fashion for focused businesses, while trying, without particular success, to portray Granada as an out-of-date 1980s-style asset-stripping conglomerate.

The speed with which it found buyers was impressive, and the battle seemed to move Forte's way. But the advantage swung back decisively when Granada increased its offer and detailed plans to improve Forte's profits by £100m a year. It also announced a U-turn: it now intended to sell Forte's luxury hotels and the international Meridien chain, on the grounds that

there had been great interest from potential buyers.

It is controversial stuff. Granada has spent £3.9bn to acquire Forte but will only retain assets valued at about £1.7bn, consisting mainly of the roadside restaurants and lodges business - these now account for nearly 80 per cent of group profits - which it will integrate with similar operations of its own.

All this involves huge fees to the City, which emerges as one of the biggest winners. Granada will spend £106m in underwriting, bank loan commitment fees, and the bills of an army of advisers, as well as picking up Forte's estimated tab of £35m. It may pay a further £15m to £30m for advice on asset disposals. Other payments and provisions could bring the total to £250m.

The improved offer was also controversial, because it was to be funded partly through a special dividend paid from Forte's reserves. This not only lay Granada open to accusations of plundering Forte's assets but also took one stage further the recent bid fashion for special dividends, which are attractive to tax-exempt institutions, such as pension funds which can claim back a tax credit.

Granada's innovation was to offer a cash alternative to investors unable to claim a tax credit, making the special dividend look like an attempt to get the Inland Revenue to part fund the bid. Future bidders

are likely to follow its example, unless the tax authorities are provoked into closing the loophole.

Yet Mr Robinson's U-turn strengthened his hand. If his institutional fans had any doubts, it was over his ability to run luxury hotels, a new area for Granada. By offering to sell them, he removed this concern. It was assumed he would get a reasonable price: why just had to trust Gerry to deliver.

In contrast, Forte's shift of direction in response to the bid seemed to many investors merely to underscore the previous slow pace. As one commented: "Why did it take a year to galvanise Rocco? And if we let him off the hook will we find the leopard really has changed his spots?"

Nor did the claim that Mr Robinson's plans to sell off much of the Forte portfolio amounted to "asset-stripping" carry much weight, since Forte was planning to shed so many of its businesses. It is, moreover, questionable whether the accusation of putting profits before jobs, carries much weight in the 1990s when no jobs are safe and companies are constantly restructuring.

The Labour party, with its new enthusiasm for a continental-style "stakeholder economy", may seek to portray the Forte bid as an example of City fund managers' short-termism. But arguably the very opposite is true: the messy, costly nature of the bid stemmed from the inertia of institutional investors, which should have put much more

pressure on Forte over the past decade to improve its performance.

The important role played in the bid by Mercury Asset Management - the fund manager which cast around 14 per cent of Forte's shares for Granada - may also come under fire. There is an increasing tendency in the UK for large shareholdings in companies to be concentrated in fewer hands, as fund managers try to distinguish their performance by placing large bets on particular managements.

Says one City adviser: "I used to frighten clients by telling them they could fit their crucial shareholdings into the first few rows of an auditorium. Nowadays, you can sometimes fit them into the loo."

The danger is that fund managers might try to play a more active role in encouraging bid activity, although MAM says the first it knew of Granada's bid was just before the launch.

In any event, an FT straw poll of fund managers' intentions suggests that the outcome of the Forte bid would have been little different if MAM's stake had been spread more evenly among the professional investment community, where there was strong support for Granada.

The victory may encourage more hostile bids, uncommon since the 1990-91 recession put a stop to the last merger wave. But the UK is anyway at the point in the economic and stockmarket cycles when bid activity picks up strongly, and hostile offers are bound to comprise a significant element of that. Companies are flush with liquidity, equities are highly valued and banks are falling over themselves to lend on fine terms - as their support for Granada's highly leveraged deal demonstrates.

Yesterday's announcement that Farnell Electronics, capitalised at just under £1bn, plans to buy a US components distributor for about £1.86bn, financed by equity and debt, is another manifestation of the same cyclical trend.

The larger question is whether investors have been wise to place such great faith in Mr Robinson, who now faces the tricky job of fulfilling his promises.

His company will emerge from the bid with debt of £3.5bn, against assets of £1.44bn, for gearing of nearly 250 per cent. Granada's "strong cashflow" and undervalued assets may make that manageable: Mr Robinson reckons he has interest covered four times after capital investment; selling the luxury hotels at book value would increase this to eight times.

But his disposal plans could be upset by a sharp stock market correction, or some other external force. He also has to cope with the winner's curse: a large body of academic evidence shows that at least 50 per cent of takeovers are unsuccessful, with the victor's share price tending to underperform the market once a wave of post-bid euphoria passes.

Mr Robinson's record is excellent, but one of the lessons of the 1980s takeover wave is that the energy and self-confidence which first propels a management into the takeover business can over time become an overweening hubris - the pride that comes before a fall.

Granada shareholders will be expecting the Forte deal to show that the affable Mr Robinson is a long, long way from that deep and dangerous divide.

# OBSERVER

## Beating time at Roche

As Roche, the Swiss drugs company, celebrates its "first 100 years", it bids farewell to one of its best advertisements - a director who is himself only a decade short of his centenary.

Paul Sacher, who has been on the board since 1983, is getting on a bit. His image was crucially reinforced on the day the bid was launched, when he was found to be out shooting, rather than at his desk. He subsequently pointed out that such an absence was unusual, while Mr Robinson denied the bid had been timed to cause Sir Rocco maximum embarrassment.

The contrast between the two companies was so great that Granada seemed headed for an easy victory. Sir Rocco joined the battle on November 22. There was such con-

family - Lukas Hoffmann, 74, and Jakob Cretz, 76. But the Hoffmann line is assured, with Fritz's great-grandson, 38-year-old André Hoffmann, up for a board seat at the June agm.

## Muddy picture

It's that sinking feeling again. South Korea's Daewoo, which is building a 15-storey business centre in Hanoi, the Vietnamese capital with the charming French colonial-style skyline, is incensed at reports in a local newspaper that the development has sunk 20 centimetres into the ground. Not so, says Daewoo, it's 20 millimetres. A few millimetres is normal in any project, it insists, looking out at the paper's sloppy reporting.

Hanoi sits on a bed of soft ground in the Red River Delta, and other foreign developers have had to dig far deeper than they had originally planned in order to secure their buildings. Hope the 12 separate developers currently planning new hotels in Hanoi are paying attention.

## Short circuit

In its most recent annual report, Premier makes much of its inclusion in a book called *Making it in America - Proven Paths to Success from 50 Top Companies*.

## Kids' play

Poor President Jacques Chirac. Battered against that monstrous budget deficit, besieged by those ugly unemployment statistics. Whatever is a man to do to inject some *joie de vivre* into the French economy?

Judging by a ceremony this week at the Elysée, he has hit upon a rather unambitious solution.

For there was the head of state bestowing something called the French Family Medal to 30 sets of parents who have brought up between four and 11 children each. Chirac was to be heard praising them lavishly for making the connection between growth and demography.

Well, it's cost-effective - just the price of a few pieces of metal and some bits of ribbon.

## Thrill of Chase?

So how is the Chemical/Chase merger progressing? Ignoring for a moment the quips in the New York dealing room after the Fed lowered rates about Chemical having cut Chase's prime rate, what is one to make of the two

## Big guns

The following radio conversation is supposed to have been released by the US Navy.

First voice: "Please divert your course 15 degrees to the north to avoid a collision."

Second voice: "Recommend you divert your course 15 degrees to the south to avoid a collision."

First voice: "This is the captain of a US Navy ship. I say again, divert your course."

Second voice: "No, I say again divert your course. First voice: THIS IS THE AIRCRAFT CARRIER. SALTERPINE, WE ARE A LARGE WARSHIP OF THE US NAVY. DIVERT YOUR COURSE NOW."

Second voice: "This is a lighthouse. Your call."

## 100 years ago

British rule in India. Sir John Linn, M.P. for Dundee, made a very interesting speech at Calcutta at the end of last month. Sir John, despite his years which are not few, has had the courage to go out to India to investigate the position of the jute industry, in which his constituency is greatly interested. According to his own statement, he has been deeply impressed by the vast resources of our big dependency, and also the advantage it derives from British rule. In concluding his speech, which was delivered before a number of merchants representing the jute and cotton mills of Bengal, Sir John said: "I should regard as nothing less than criminal any proposal or any policy which would weaken, embarrass or impede the British occupation and government of India." And so say all of us.

## 50 years ago

U.S. rail strikes threat. With no sign of settlement in the U.S. steelworkers' strike, now in its third day, and meat-packing plants at a standstill, railway union leaders to-day forecast strike action by 300,000 men, which might cause a widespread railway hold-up in the country. The "Brotherhood of Railroad Trainmen" - mainly guards - are halting immediately on a strike proposal.

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# FINANCIAL TIMES

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## Row over vodka rights produces fighting spirit in Smirnoff family

Count Leo Tolstoy wrote in the opening line of *Anna Karenina*: "Each unhappy family is unhappy in its own way." But even he would have struggled to invent a family quarrel as extraordinary as that which currently engulfs the Russian Smirnovs, descendants of the Tsarist vodka empire.



Second only to rum in sales and at the heart of a family split

Thirty four Smirnov family members yesterday published a statement condemning one of their Moscow relatives, Mr Boris Alexeyevich Smirnov, for sulling the family name for "dishonest" claims to be the true producer in Russia of the famous Smirnoff vodka.

The statement claimed the legitimate rights to the family trademark were acquired in 1939 by Heublein, a US company which is now part of Grand Metropolitan of the UK.

Over the last 50 years, Smirnoff - the French rendering of the Cyrillic characters which make up the family name - has grown into the second biggest selling spirits brand in the world after Bacardi rum. Selling 15.3m cases of it a year generates about £100m in operating profits for GrandMet, estimated to be about 20 per cent of its drinks profits.

All 34 Smirnovs claim descent from Mr Peter Arsenyevich Smirnov, who founded a vodka business in Moscow in 1860 and expanded it into one of the most powerful trading houses in Russia by the time of his death in 1898. They say the founder's third son, Vladimir, legitimately sold the trademark rights to an emigre Russian-American businessman shortly before he died them on to Heublein.

members poured out their experience of life since the Communist revolution of 1917, which stripped the family of its lucrative inheritance and led to hardship and persecution.

Several of the Smirnov family were interned in the Stalinist Gulag, adding an edge of intensity to the dispute with Boris, a former KGB officer.

of the founder's third son, wants to exploit the Smirnoff brand in Russia and, with US business partners, has approached many of the world's biggest spirits companies to attract investment.

Mr Bill Walker, a US lawyer who formed a company to exploit the Smirnoff rights after a chance meeting with Boris,

### John Thornhill in Moscow and Roderick Oram in London on a feud engulfing the heirs to a drinks dynasty

The ownership of the Smirnoff trademark has been in dispute in Russia since 1991 when Mr Boris Smirnov registered the brand name in Moscow a month before Heublein filed to register the trademark.

However, the origins of the row go back to the late 19th century when the rights to the Smirnoff trading house were divided between the five sons of the founder.

Mr Boris Smirnov, a descen-

describes Heublein's ownership claims as a "classic highwayman's argument".

Heublein bought the rights from a family member who had no right to sell them, Mr Walker claims. "As we say in America, they bought the Brooklyn Bridge."

Mr Boris Smirnov has taken the dispute through the Russian courts and obtained injunctions in regional courts barring GrandMet from importing Smirnoff in

Russia. GrandMet says it has stockpiled sufficient quantities of vodka to supply the market until the court rulings are overturned.

But Mr Walker has widened the battle and even launched legal proceedings against Heublein in Delaware in the US, challenging the company's rights to the trademark internationally. "I believe the legal case exists to dismantle the entire edifice upon which Heublein has tried to build the Smirnoff brand name," he says.

What has been a minor legal irritant to GrandMet is turning out to be a sizeable headache. Given the unpredictability of the Russian legal system, there is unlikely to be a quick fix to the court wrangles.

Some industry observers suggest Mr Boris Smirnov and his business associates will have to be bought off - he has already turned down one offer from GrandMet. But a deal may only inflame the sensibilities of the other family members who uphold Heublein's claims. For the past few years they have been beneficiaries of a trust established by Heublein in Moscow.

GrandMet has ambitious plans to expand in Russia - the biggest vodka market in the world. Industry officials estimate Russians consumed 2.5m litres of vodka last year.

GrandMet is trying to enhance the Russian credentials of its vodka by exporting a "super-premium" version, Black Smirnoff produced by Cristal, an independent Moscow distillery.

The rest of the 15.3m cases of vodka it produces a year have nothing to do with Russia apart from the labels which sport medals the Czar awarded Peter, founder of the business. All the vodka is produced in 22 distilleries outside Russia for sale in 138 countries.

## French stock exchange plans link to trading screens in UK

By Andrew Jack in Paris

The French stock exchange is planning aggressive moves to boost its business in other European countries.

The move follows financial deregulation measures introduced across the European Union at the start of this year.

The Société des Bourses Françaises, operator of the Paris stock market, plans to offer trading screens and enhanced communication networks to institutions in the UK so they can do business directly with France from their offices in London and elsewhere in the UK.

In the next few weeks it intends to announce the opening of a telecons "hub" which should allow information to be transmitted and transactions carried out between London and Paris in "real time".

The bourse is also considering

launching similar initiatives in other important European markets, including Frankfurt, Geneva and Brussels, over coming months. It is also considering the use of satellite technology for other markets in the longer term.

The action comes in response to the introduction of the European Investment Services Directive on January 1, which offers considerable scope to reduce national regulation and boost cross-border financial activity.

One effect of the directive will be to allow financial institutions other than banks - once regulated in one EU state - to be issued with a "passport" allowing them to operate easily in others.

The new legislation also allows rival stock exchanges to set up in competition with established ones in national markets. In the same way, it offers scope for exchanges to provide their services in other EU member states.

The French bourse intends to stress the advantages of its system in terms of cost, transparency and quality compared with transactions in French equities conducted through Sea International, the London Stock Exchange's system.

The news will come as a further blow to the London exchange, which has come under increasing criticism for turning its back on developments taking place elsewhere in Europe.

The London exchange said it had expected such moves by European exchanges following implementation of the directive. It said Seaq International was increasingly focused on trading shares in emerging markets rather than Europe.

The Madrid, the French financial futures exchange, has already received approval from the UK authorities to set up a derivatives operation in London.

## Bonn fears may prompt jobs plan

Continued from Page 1

teria, which stipulate cutting the public sector deficit to below 3 per cent of GDP. The government is already expecting a 3.5 per cent public sector deficit for last year. "We forecast about 3.4 per cent this year," said Mr Fabrikant, but government officials would not confirm this.

Equally disappointing for the government is that despite the introduction this year of some tax changes, including an increase in child benefit allowances and abolition of an electricity surcharge, consumer spending is not expected to pick up substantially.

The government expects private consumption to grow by 2 per cent compared with 1.3 per cent last year, and domestic demand is estimated to grow by 1.5 per cent, compared with 1.8 per cent in 1995.

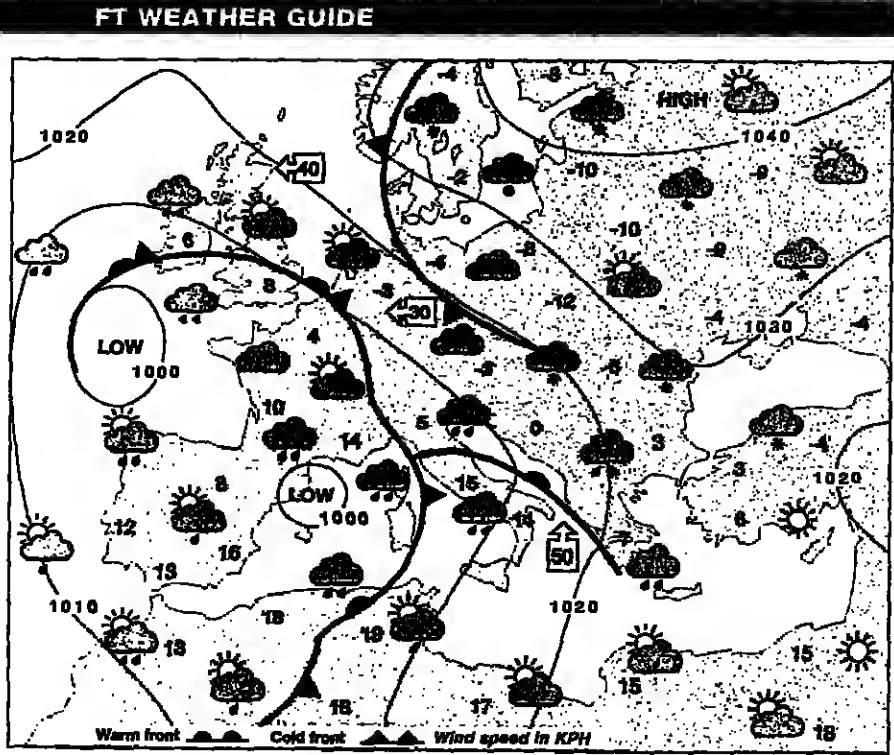
### Europe today

High pressure over northern Scandinavia will produce moderate to fresh easterly winds over northern parts of the continent. Afternoon temperatures in Germany and the Benelux will be mainly below freezing. Northern Europe will be cloudy. Sunny spells are expected along the west coast of Norway, in Scotland and in northern parts of the Benelux and Germany.

Southern Scandinavia and parts of western Russia will have patches of snow. Scotland and southern England will have periods of rain. Most of Europe will stay dry but there will be some rain in parts of Spain, most of Italy and south-eastern Europe. Rain will turn to sleet inland and the southern Alps, Hungary and Romania will have snow.

### Five-day forecast

Low pressure systems will cross the Mediterranean giving cloud and abundant rain in Spain, Italy, the Balkans and south-eastern Europe. Further inland and on higher ground, temperatures will be below freezing and the rain will turn into snow. An easterly flow over the east coast of the UK will give snow showers later in the week.



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## THE LEX COLUMN Gleeful Granada

British corporate financiers must be rubbing their hands with glee at the sight of Granada's successful takeover of Forte. Here is a bidder paying £1.5bn (\$60m) for a business where it has no direct expertise and from which it is immediately planning a job of asset sales. This might seem to imply open season for the 1980s-style corporate raider.

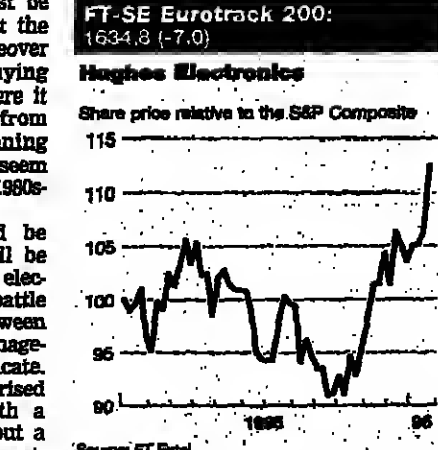
The reality, however, could be rather disappointing. There will be plenty more bids before the next election, but another Granada/Forte battle is unlikely because the gulf between pre-bid perceptions of the two managements would be difficult to replicate. Recent bids have been characterised by industrial consolidation with a view to cutting costs. Granada put a different spin on the theme by boasting that its management did not need the industrial synergies to find the cost savings. It could back this up with a record of delivering strong cash flow - sufficient to alleviate concerns over post-bid debts - and a return on investment that substantially out-paced that of the 1980s deal-makers such as Hanson. Granada got the benefit of the doubt, but plenty of companies would not.

The onus is now on Granada to realise its promises. Its share price will face selling from unwilling new investors and it is unlikely to recover until it can announce a large chunk of the promised £1.5bn of luxury hotel sales. But if it casts off the hotels and delivers the majority of its promised cost savings, Granada supporters should be well rewarded.

### AT&T/DirecTV

As AT&T gears up for its demerger later this year, its telecoms services arm is displaying increased vigour. Yesterday the company unveiled plans to attack the UK market; the day before it formed an alliance with DirecTV, the embryonic but fast-growing US satellite television group. Both moves will intensify competition faced by existing operators. In the UK, AT&T's plans to focus on large companies pose a particular threat to Mercury Communications, which has adopted a similar strategy.

For AT&T, though, its decision to take a stake in DirecTV, owned by General Motors' Hughes Electronics, and market its services is more significant. As the barriers between cable TV and telecoms crumble, AT&T's rivals will target its customers, offering packages combining TV and phone



Share price relative to the S&P Composite

Source: FT Data

### Euro Disney

Euro Disney is still a long way from the Magic Kingdom of decent returns on equity, but it is moving in the right direction. Last year's momentum in revenue growth continues, with turnover rising 17 per cent in the three months to December. This is similar to the level achieved last summer during the hype over its new Space Mountain ride. Moreover, the operational gearing of the business is becoming increasingly apparent. Almost 60 per cent of revenue growth is being translated into operating profit before financing costs, reflecting the company's high level of fixed costs. The addition of another conference centre, due to open in autumn 1997, should also smooth out seasonal earnings volatility and underwrite the current increase in hotel profits.

This is fortunate, since the group's

interest holiday is gradually coming to an end. The company will pay an extra FF120m of financing charges this year, and by 1998 it will be paying around FF400m more than in 1995. At least there is no longer concern over Euro Disney's ability to cover funding costs. However, there is not enough cash for more Space Mountains to keep the momentum going. So, it is hard to see how it can increase profits sufficiently to justify the current share price. Of course, a favourable deal to redevelop phase two of the theme park could transform the numbers. And a pick-up in European consumer spending would help. But even at Euro Disney, investors should not be banking on fairy tale endings.

### Farnell/Premier

Farnell's £2.6bn acquisition of Premier is hair-raising. The UK electronic components distributor is more than doubling its share capital to buy a business nearly twice its size on the other side of the Atlantic. The group is also loading up with £450m of debt. The geographic fit is complementary, with Farnell strong in Europe and Premier in the US. But the neatness of the industrial logic should not be allowed to divert attention from the financial risks.

Apart from the sheer scale of the takeover and the fact that UK companies have come unstuck in the US before, it is opportunistic. For the past two years Farnell has preached slow and careful expansion in America, while its UK rival Electrocomponents has avoided it altogether. Now Mr Howard Poulson, chief executive, has pulled off what he called "a once in a lifetime deal" after less than two months of due diligence.

Farnell is paying an expensive 24 times prospective earnings. To make the acquisition work at that price, the group must boost margins. With Premier already enjoying 20 per cent margins, there is little scope to run it more efficiently. And though greater purchasing power and cross-selling may produce synergies, they will be slow to come through. The purchase will dilute earnings per share by 8-10 per cent next year and require £15m of savings just to be earnings neutral the year after. Unless Farnell can do a better job of selling the deal, shareholders should vote it down at next month's extraordinary meeting.

Additional Lex comment on Railtrack, Page 22

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October, 1995

SEK 6,824,100,000

**Nordbanken AB**

Global Offering of 74,175,000 Ordinary Shares

CS First Boston

International Offering 23,897,250 Shares

CS First Boston

Paribas Capital Markets

Barclays de Zoete Wedd Limited

Daiva Europe Limited

Dresdner Bank-Kleinwort Beoson

Nordic Offering 3,225,000 Shares

CS First Boston

Den Danske Bank

Hsdnelshanken Markets

Swedish Offering 35,442,750 Shares

Nordbanken AB

CS First Boston

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Sparbanken Swedbank Markets

U.S. Offering\* 11,610,000 Shares

Goldman, Sachs & Co.

CS First Boston

Merrill Lynch & Co.

Lehman Brothers



**LEGAL DEFINITIONS**

Notation n. 1 launching of a commercial enterprise on the Stock Exchange  
 2 life belt or similar device required if enterprise sinks. see ROWE & MAW: asap (ph 0171-248 4282)

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 Wednesday January 24 1996

**IN BRIEF**

**FORTE**  
 Granada captures Forte  
 Page 20

**Walt Disney rises to record \$496m**

The US launch of the film *Toy Story* and the international debut of *Pocahontas* helped Walt Disney to record first-quarter earnings of \$496m from revenues up 16 per cent in the three months to end-December. Page 18; Euro Disney result, Page 18

**Salomon growth slows in fourth quarter**

Fourth-quarter net income of \$168m at Salomon Inc - parent of Salomon Brothers, the US investment bank - continued the turnaround from \$17m losses of the same period of 1994, but showed a fall in earnings from the strong third quarter. Page 16

**Roche history highlights failings**

Roche, the Swiss pharmaceuticals group, was clumsy and self-righteous in its handling of a "series of unfortunate incidents" in the 1970s that did "enormous harm to the company's reputation", according to a history of the group published for its centenary celebrations. Page 18

**Siemens sees 25% profit growth for year**

Siemens, the German electronics and electrical engineering company, said it was in line to achieve its forecast profit growth of between 20 per cent and 25 per cent in the current financial year. Page 18

**Olivetti expects £500bn loss for year**

Olivetti, the troubled Italian computer group, said it expected a 1995 pre-tax loss of about £500bn (\$313.7m) before restructuring costs of £1,050bn. The latter includes a £900bn charge provided for in the first half.

**Sports fans' cash to help build stadium**

Multiplex Constructions, the Australian company which is to construct a 110,000-seat stadium for the Sydney Olympic Games in 2000, is offering free tickets to the games to sports fans who help supply the funds for the A\$463m (US\$389m) building project. Page 19

**Unilever sweeps up Diversy for C\$780m**

Unilever, the Anglo-Dutch food, detergent and specialty chemicals group, has become the world's second largest producer of industrial cleaning products with its C\$780m (US\$693.3m) purchase of Diversy from The Molson Companies of Canada. Page 21

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**Chief price changes yesterday**

FRANKFURT (DM)		PARIS (FF)	
Rhone	725 + 5	Imbia	108 + 10
Adia FT	438 + 8	Silo Peugeot	1591 + 41
Homburg Field	1222 + 11	Peugeot	483.8 - 12.2
Renault	559 - 8	Or Natomsa	342 - 11.1
Veolia	219 - 17.5	Soc Generale	394 - 13
Siemens	407.5	YACOVY (Paris)	
NEW YORK (\$)		LONDON (Pence)	
Alcoa	624 + 4	Hewlett Packard	673 + 20
GenCorp	124 + 5	Yag America	1510 + 250
Passport	31 + 8	Phillips	1310 - 80
Plymouth	348 + 31	UK	855 - 45
Verizon	799 - 24	Sampo	805 - 22
WorldCom	1554 - 49	WONKONG (Hong Kong)	
IBM	364 + 11	Wong	64.8 + 0.7
Microsoft	358 + 20	Yag Asia	22.2 + 0.8
Oracle	720 + 20	Banco	41.7 + 1.1
Yahoo	617 + 17	Yag Japan	48.3 + 0.7
Amazon	679 + 18	Yag Korea	8.5 + 0.5
Comcast	441 - 17	Yag Taiwan	31 - 0.5
Farnell Dnc	617 - 18	Yag Thailand	
Granada	679 - 18	Yag Vietnam	
TOKYO (¥)		HONG KONG (HK\$)	
Rhone	84 + 14	Yag Life	119 + 8
France-Hesselt	30 + 2	Yag Bank	128 + 11
Siemens	30 + 2	Yag	27.28 - 9
Yag	351 + 24	Yag	890 - 28
Yag	474 - 24	Yag	125 - 10
Yag	274 - 24	Yag	1284 - 12
Yag	84 - 24	Yag	

**Dutch ministers hold talks on possible finance for aircraft maker**

**Fokker tries to save core operations**

By Ronald van de Krol in Amsterdam

Fokker, the Dutch aircraft maker plunged into crisis by Daimler-Benz's withdrawal of financial support, was yesterday refusing to rule out the possible survival of its core aircraft building operations, either in partnership with a foreign company or with the help of bank financing.

Hopes rose after Mr Hans Wijers, Dutch economic affairs minister, said efforts to salvage aircraft building would be "extremely complex" but worth the effort. His comments followed an emergency meeting with Mr Wim Kok, prime minister, to discuss the possibility of extending bridging finance to Fokker.

Last night, Fokker's senior managers were in a second night of meetings aimed at finding a way to avoid bankruptcy in the wake of Daimler-Benz's decision on Monday to stop further financial aid.

Government officials refused to comment on reports that the Dutch cabinet was prepared to earmark several hundred million guilders for Fokker.

The company's shares remained suspended for a second day as negotiations with the government, and between Fokker's management and supervisory boards, continued.

The decision by Daimler-Benz, Fokker's controlling shareholder, to withdraw its support followed failed talks between Daimler-Benz and the Dutch government, a minority shareholder, on a €1.25bn (\$1.4bn) rescue plan for the aircraft maker.

The government's stance will be crucial to Fokker's future, but so will that of Daimler-Benz. Fokker has outstanding orders for 75 aircraft, representing about two years' production. Daimler-Benz co-signed some of the contracts and will be keen to ensure that the aircraft are built and delivered to customers. This could form the nucleus of a resurrected Fokker, one union official said.

Fokker suggested that it was in the German company's interests to co-operate because it recently took over Fokker's portfolio of leased aircraft.

"That lease portfolio is worth €1.4bn. If Fokker collapsed, that value falls dramatically," the company said.

However, analysts said the most likely scenario was that Fokker's aircraft building subsidiary, Fokker Aircraft, which generates 90 per cent of total turnover and employs nearly 6,000 of the group's 7,800 workers, would be forced into receivership. This would leave two smaller operations, a defence subcontractor and an aircraft maintenance subsidiary, which might be able to survive on their own or be taken over by another company. Daimler shares rise, Back Page



Emergency talks: Wim Kok, Dutch prime minister

**Bristol-Myers in loss after latest implant charge**

By Richard Waters in New York

Bristol-Myers Squibb, the US drugs and healthcare group, yesterday took a \$950m charge to cover the costs of settling claims over silicone breast implants.

The latest charge, which led to a fourth-quarter loss at the company, takes Bristol-Myers' total provisions since 1993 to \$2.2bn, and could force other former implant makers to increase reserves of their own.

The company, along with Baxter International and SM, agreed in the autumn to a revised class action settlement for women who claim to have suffered illnesses caused by leaking silicone implants. That followed the collapse of an earlier \$4.25bn global settlement. The biggest maker of silicone, Dow Corning, filed for Chapter 11 bankruptcy protection last year and is not included in the latest agreement.

Bristol-Myers said it would be some time before it could assess the final cost of the settlement as it did not know how many women would opt for the deal or how much each claim would be settled for.

Unlike the earlier deal, the new one only covers women in the US, and only those who can prove that their implants were made by a Bristol-Myers subsidiary. It would result in lower payments to each claimant.

Baxter has taken two charges totalling \$170m, the most recent in April last year. The amount represents what it expects to have to pay to claimants after receiving \$64m under insurance policies. SM, meanwhile, has set aside only \$35m, representing its expected liability after insurance recoveries.

Both companies said yesterday that they continued to believe their current reserves were adequate.

Bristol-Myers' latest charge, amounting to \$580m after tax, came as the company also took a restructuring charge of \$310m (or \$198m after tax).

These led to a pre-tax loss of \$360m for the final three months of 1995, compared with a profit of \$82m the year before.

For 1995 as a whole, Bristol-Myers registered net income of \$1.81bn, or \$3.63 a share, compared with \$1.84bn, or \$3.62 a share, in 1994.

Results, Page 16

**Farnell Electronics to pay \$2.8bn for Premier**

By Christopher Price in London

Farnell Electronics is to spend £1.85bn (\$2.8bn) to take over Premier Industrial Corporation of the US, creating the third largest electronic component distributor in the world.

The size of the deal, with the UK group more than doubling its size, shocked the market and Farnell shares fell 10 per cent to 617p. The combined group will have annual sales of more than £1bn and operating profits of £175m.

The Mandel family, which controls 65 per cent of the shares, has agreed to support the offer. Mr Morton L. Mandel, chairman and chief executive, will become deputy chairman of the new group, which will be renamed Premier Farnell and list in New York and London.

Farnell will use a mixture of new shares, preference shares, cash and debt to fund the deal - by far the largest the fast-growing company has undertaken.

The 9-for-19 rights issue at 540p per share will raise £350m, while a further \$460m will come from the issue of convertible preference shares. Another \$460m will be provided by the issue of ordinary shares to the Mandel family, which would then own up to 25 per cent of the enlarged equity. A further \$580m will come from a mixture of debt and cash.

After the transaction and the write-off of goodwill, Premier Farnell will have negative shareholder funds of £132m and net liabilities of £155.2m.

The deal will make Farnell, already one of Europe's largest catalogue-based distributors, the largest electronics components group in the US and third behind Avnet and Arrow, of the US, in the world.

Based in Cleveland, Ohio, Premier has a market capitalisation of about \$2bn, against Farnell's £841.6m. The US group made pre-tax profits of \$172m on sales of \$818m last year. Three-quarters of its business is derived from the Newark electronics distribution business, which has 15 per cent of the \$17bn-a-year US catalogue distribution market.

The remainder comes from a mixture of mechanical distribution and fire-fighting equipment. Farnell said some peripheral businesses may be sold to help reduce debts. However, the group was confident that the new company's cash generating ability and synergies and cost savings would be sufficient to justify the price.

Lex, Page 14; Observer, Page 13; City gasp, Page 21

**Brady bonds lifted as Moody's re-rates Polish issues**

By Richard Lapper in London

The \$145bn market in Brady bonds, financial instruments issued in exchange for distressed debt, has received a strong lift following a credit rating agency decision to award an investment grade rating to Polish issues.

It is the first time Moody's, the credit rating agency, has rated the credit of any Brady bond issue at this level. The move should allow a broader range of investors to hold the paper.

The credit rating agency's move also seems likely to foreshadow growing investor interest in emerging market debt.

Polish Brady's have risen more than 10 per cent to all-time highs since the announcement by Moody's on Monday in New York. Moody's also re-rated Latin American and other Brady's by one notch, bringing them into line with other securities issued by the governments concerned - although not to investment grade.

Price increases for Latin American Brady bonds were more modest. Even so, between Friday's close and late afternoon yesterday in London, Argentine, Mexican and Brazilian bonds had gained 3.36 per cent, 2.58 per cent and 1.5 per cent respectively, building on a strong performance since mid-November.

"Dealers have been buying on the expectation that there will be demand from new investors," said Mr Philip Poole, head of research, eastern Europe, at ING Barings in London.

Ms Ingrid Iversen, debt strategist at UBS, said investors expected yields of Polish Brady bonds to drop towards levels of the same country's eurobonds, which have the agency's Baa3 investment grade rating. Brady's yield at least 1 1/2 percentage points more than the eurobonds.

Poland issued about \$8bn in Brady's in 1994 as part of its debt rescheduling agreement but investor interest - as with the rest of the Brady market - has been restricted to a narrow range of specialist fund managers. Larger institutional investors are usually limited in the amount of non-investment grade assets they can hold.

Moody's said it had adjusted its ratings in recognition of changes in the Brady bond market. Most Brady bonds were originally held by the banks who had made their original loans to Latin America and eastern Europe but these portfolios have since been sold off into the secondary market and increasingly resemble other marketable securities issued by governments, such as eurobonds.

Moreover, since 1990 the market has become more liquid. Annual trading volumes have soared, rising from less than \$100bn in 1990 to nearly \$1,700bn in 1994. About \$145bn of Brady's are outstanding.

"There has been a recognition that Brady debt is no longer regarded as impaired," said Mr Poole.

**Barry Riley**  
**Stripping gilts to the bare essentials**

Just as UK government bonds are wobbling slightly under the strains of UK domestic politics, here comes a new Merrill Lynch Guide to the Gilt-Edged and Sterling Bond Markets to explain the market's charms and mysteries to an international audience. Perhaps the algebra will serve to steady some nerves.

In fact, this is an updated edition by Patrick Phillips of his highly-regarded original 1984 study, produced while he was at brokers De Zoete & Bevan. That he is now a consultant with Merrill symbolises the globalisation of the market since then. For two years Merrill Lynch has been back in business as a gilt-edged marketmaker, making a second and more determined assault on the sterling bond markets after closing its first, short-lived, Gemm in 1988.

As Patrick Phillips relates, the gilt market has a long history, and it has never been destroyed by hyperinflation or war - unlike German debt, for example, which has been twice in that century. However, gilts' recent performance has been less impressive. The British economy floats uncomfortably on the edge of Europe, with only vague monetary hints, and gilt-edged incorporates a distinctive set of risks that many global investors will scarcely bother to analyse.

The perceived extra risk requires extra return. Gilt spreads against the core continental bond markets have been widening again, despite a general swing to the "periphery" in

Europe recently. The spread at 10 years is back to 100 basis points against French OATs and nearly 150 basis points against German bunds, below the worst of last October but trending upwards. A spread of 175 basis points against US Treasuries has been steady.

The Bank of England has been chipping away at these troublesome borrowing costs by introducing reforms including regular auctions, an open repo market, modified taxation and - promised within another year or so - gilt "sterling balances" were seen as a source of dangerous attacks on the currency, and that at a time when most of the investments were controlled by normally responsible official holders.

Having trimmed these balances to under 5 per cent by the 1990s is there a risk that the Bank will regenerate an old problem? This time, remember, the cross-border gilts are being sold largely into speculative global bond funds which will buy and sell and hedge on a whim. Responsible they are not; they will be at least as aggressive as the domestic institutions that destabilised the gilt-edged market in the late 1970s "Duke of York" period of yield gyrations.

But although foreigners became net buyers of gilts again last year, Tim Congdon is rather more concerned about the "D-Mark balances" being rapidly accumulated by Germany. Foreign holdings of German public debt have risen to 16.5 per cent of GDP (and more than a quarter of the total outstanding).

The UK is slightly behind Germany in its rate of debt expansion. And we must remember a ballooning government bond burden represents next year's taxes, the year after's inflation or, at worst, eventual default. We should not view the £30bn (\$45bn) annual sale as another interesting technical achievement.

Next, though, will come strips. They eliminate reinvestment risk (owners of conventional gilts are uncertain about the yield at which future coupons can be reinvested). But that is for another year and, for Mr Phillips, another edition.

Published by The Book Guild, £45 (available through bookshops).

**HOARE GOVETT**  
**ACTED IN FOUR OUT OF THE FIVE LARGEST UK DEALS ANNOUNCED IN 1995**

BIDDER/TARGET	VALUE (£BN)
Glaxo/Wellcome	8.9
Lloyds Bank/TSB	4.9
Granada/Forte	3.4
National Power/Southern Electric	2.8
Hanson/Eastern Group	2.5

**HOARE GOVETT**

Source: Acquisitions Monthly

This announcement appears as a matter of record only



## INTERNATIONAL COMPANIES AND FINANCE

## AMERICAS NEWS DIGEST

## Another good year at Dean Witter

Dean Witter Discover, the stockbroking and credit card group, achieved its seventh consecutive year of record earnings, reporting net income up from \$741m to \$856m in 1995. Earnings per share, fully diluted, rose from \$4.27 to \$4.88. In the fourth quarter, net income climbed 27 per cent from \$140m to \$178m, with earnings per share ahead from 81 cents to \$1.01.

The securities side increased net income by 31 per cent in the fourth quarter, to \$116m, while the credit card activity raised net income 20 per cent to \$62.3m. For the year, the securities side earned \$410m, an increase of 26 per cent, while the credit operation lifted net income 8 per cent to \$447m.

Mr Philip Purcell, chairman and chief executive, said he was "really pleased" with the results. Strong financial markets lifted the securities operation, while the launch of new credit cards increased customer accounts and revenues on the credit side. Last week the firm announced a rise in its quarterly dividend, from 16 cents to 22 cents, and authorised a \$250m share buy-back programme.

Maggie Urry, New York

## Quarterly setback for Shell Oil

Shell Oil of the US yesterday reported its biggest annual net profit in 10 years. However, a fourth-quarter decline of 11 per cent, to \$285m before extraordinary items, disappointed stock markets.

Although both prices and production of crude oil increased in the three months to the end of December, lower margins for refined products and chemicals led to the fall in earnings, the Houston-based group said.

Similar trends showed up in final-quarter data from Exxon and Amoco, released on Monday, although most of the oil groups' figures have been distorted to some extent by extraordinary items. Shell's net earnings for the year, excluding special items, rose 26 per cent to \$1.4bn. Before adjustment, the result showed a 198 per cent improvement to \$1.32.

The Royal Dutch/Shell group subsidiary said increases in crude oil prices during the year were largely offset by lower prices for natural gas, although prices and production of both commodities improved in the closing quarter. Full-year revenues rose from \$21.6bn to \$24.7bn, while the final quarter improved from \$6.5bn to \$6.9bn.

Capital spending for the year reached almost \$3bn, with the extra \$500m concentrated in deep-water regions of the Gulf of Mexico. Increased oil production in this area off the Texas coast helped offset reductions elsewhere in the US, although hurricanes in the Gulf reduced gas output temporarily in the last quarter. Improved international oil production was mainly attributed to new production in China.

Christopher Parkes, Los Angeles

## Higher prices help Imperial Oil

Imperial Oil, Canada's biggest integrated oil company, which is 70 per cent held by Exxon, said higher crude oil and petrochemical prices offset lower gas prices and declining sales of petroleum products downstream in 1995. Net profit was \$351m (US\$475.4m), or \$2.67 a share, up 43 per cent from \$239m, or \$1.85, in 1994, on revenues of \$39.4bn against \$38.5bn. Imperial closed the year with cash resources of \$31.5bn, up from \$31.3bn a year earlier.

Robert Gibbins, Montreal

## Cyprus Amax advances

Cyprus Amax, one of the world's largest gold and copper mining companies, reported fourth-quarter earnings up from \$67m, or 68 cents a share, to \$96m, or 98 cents. Revenues were \$73m compared with \$73m in the comparable period.

Cyprus said higher copper realisations, improved molybdenum results, higher sales of produced copper and lower copper cost of sales all helped the figures. For the year, net income was \$124m, or \$1.13, compared with \$175m, or \$1.69, with a 15 per cent increase in sales to \$3.2bn.

Mr Milton Ward, chairman, said there had been "impressive gains in productivity and cost improvements" in 1995. He said five new operations due to begin production in 1996 and 1997 "will significantly improve the quality of our copper and gold assets".

Clare Gascoigne

Bausch & Lomb, the US eye-wear group, is increasing its stake in its Indian venture, Bausch & Lomb India, to 51 per cent from its current 40 per cent, the company said yesterday.

Reuters, New Delhi

## Salomon continues recovery but disappoints

By Maggie Urry in New York

Fourth-quarter results from Salomon Inc - parent of Salomon Brothers, the investment bank - continued the turnaround from losses incurred in the same period of 1994, but showed a fall in earnings from the strong third quarter.

The shares reacted badly, and fell 11% to \$36 1/2 in morning trading.

Mr Warren Buffett's Berkshire Hathaway is a large shareholder in the group, and last October declined to convert a portion of its convertible stock into ordinary shares at a price of \$38.

In the fourth quarter, net income was \$168m, which compared with a loss of \$157m in the 1994 final period but was down from \$268m in the third quarter of 1995. Fully-diluted earnings per share were \$1.32, against a loss of \$1.65 in the comparable period and below the \$2.10 achieved in the third quarter.

For the year, Salomon achieved net income of \$487m against a deficit of \$398m in 1994, a year when the Salomon Brothers subsidiary lost \$963m before tax, including \$278m of charges relating to book-keeping errors.

Salomon Brothers' revenues, net of interest, nearly tripled during the year from \$1.08bn to \$2.96bn. The improvement came from equity and fixed income sales and trading, with investment banking revenues falling slightly.

Most investment banks have recorded sharp rises in revenues in 1995 as the volume of underwritings and mergers and acquisition activity rose. Analysts suggested that the controversy over Salomon Brothers last year, when an attempt to cut compensation led to several top-level resignations, could have unsettled clients.

In the fourth quarter, Salomon Brothers' pre-tax profits were \$207m, compared with a \$116m loss in the same period of 1994, but down from \$381m in the third quarter.

The fall from the third quarter is understood to have been caused by a downturn in the proprietary trading business. However, Salomon no longer reports these profits separately from its client business.

Phibro, Salomon's commodity trading subsidiary, increased annual pre-tax profits from \$81m to \$85m, with fourth-quarter profits of \$36m compared with a loss of \$24m.

Phibro USA, the oil refining and marketing business, lost \$91m during the year, after making a pre-tax profit of \$18m in 1994. Salomon has made clear this is a non-core activity, and it is believed to be for sale.

## US drugs groups come up to expectations

By Richard Waters in New York

Merck and Bristol-Myers Squibb each reported operating earnings growth in line with market expectations in the final three months of 1995, reflecting continued volume growth for a wide range of pharmaceuticals.

Both US groups saw little overall impact from price increases or foreign exchange fluctuations.

Merck's 18 per cent growth in sales, to nearly \$4.6bn, was

prompted by "solid unit volume gains" both in the US and overseas, and by continued growth in the company's managed care business, said Mr Raymond Gilman, chairman.

Had it not been for the formation of the Astra Merck joint venture during the period, sales for the quarter would have increased 25 per cent from the year before, Merck added.

The sales growth led to an 11 per cent increase in net income in the final quarter, to \$356m, while earnings per share

climbed 15 per cent to 70 cents.

After-tax profits for the full year also rose by 11 per cent, to \$3.34bn, while earnings per share were 13 per cent higher at \$2.70. Sales in 1995 reached \$16.7bn, an increase of 11 per cent from the year before.

Bristol-Myers, meanwhile, said its fourth-quarter sales rose 11 per cent to \$3.6bn, while full-year sales climbed 15 per cent to \$13.8bn.

The company's latest figures reflected the pressure beginning to build on Capoten, its

biggest-selling product, which lost its patent protection in Germany last year and comes off-patent in the US next month.

Capoten sales slipped \$5m to \$385m in the final quarter, and the company has predicted a further fall this year, although the decline will be limited by the fact that more than half of the drug's sales come from outside the US and Germany.

Sales of Taxol, an anti-cancer drug, reached \$170m in the quarter, compared with \$100m a year before.

Bristol-Myers' earnings were hit by a further charge to cover breast implant claims, which amounted to \$58m after tax, and a previously-announced restructuring charge of \$180m after tax.

It reported a fourth-quarter loss after tax of \$1.2m, or 28 cents a share, compared with a profit of \$96m, or 19 cents, a year before.

For 1995 as a whole, Bristol-Myers registered net income of \$1.81bn, or \$3.58 a share, compared with \$1.84bn, or \$3.82, in 1994.

## Astra shares find relief in success of Losec

Shares in Astra, the Swedish pharmaceuticals group, rose sharply yesterday on news that Astra Merck's US joint venture with Merck, had achieved a 77 per cent increase in sales of its anti-ulcer drug, Losec, in the fourth quarter of last year, writes Hugh Carnegie in Stockholm.

Astra's most-traded A share rose \$K14 to end the day at \$K1260 in Stockholm, after Astra Merck reported that sales of Losec rose from \$215m in the

last quarter of 1994 to \$380m - a much sharper increase than most analysts had expected.

However, the Swedish company warned that it was unlikely to sustain such rates of increase in sales. It said sales had been boosted by inventory-building that was not likely to continue.

Nevertheless, Astra estimated the underlying rate of growth in sales of Losec to end-customers in the US

remained around 45 per cent - sustaining the powerful growth surge the drug has shown in recent years.

Astra Merck reported full-year Losec sales in 1995 of \$1.36bn, a 51 per cent rise over 1994 sales of \$900m. Astra executives expect Losec to overtake Zantec, the anti-ulcer drug produced by Britain's Glaxo, as the world's biggest selling drug some time this year.

The US figures came as a timely

boost to Astra shares, which had weakened this month after the company warned that 1996 profits would be hit in the second half by a recent rise in the value of the Swedish krona.

Analysts forecasting pre-tax 1996 profits of above \$K14bn (\$2.05bn) say the recent 10 per cent rise in the value of the currency could wipe out up to \$K12bn of Astra pre-tax profits after bedding programmes expire.

## US paper groups confirm downturn

By Maggie Urry

Further evidence that paper companies are facing a downturn after a record period came yesterday from Georgia-Pacific and Weyerhaeuser's year-end statements.

The news hit shares of leading US paper groups in morning trading, with Georgia-Pacific down 3% to \$67 1/2, Weyerhaeuser 1% lower at \$41 1/4, and International Paper falling 3 1/2% to \$37 1/4.

Both companies reporting yesterday said they faced weaker markets in the early part of 1996, despite record earnings in 1995. At Georgia-Pacific, Mr Pete Correll, chairman and chief executive, said: "We will see significant weakness in demand and sharply

lower prices for most of our pulp and paper products for at least the first half of 1996."

He said that after three consecutive record quarters, the fourth quarter of 1995 had seen "a significant swing" to "much weaker" results. During 1995, strong demand for paper allowed the manufacturers to raise prices sharply - but customers responded by building stocks in anticipation of further price rises, and are now using those stocks.

Mr Correll said this led to softening prices and below-capacity production at the mills. Georgia-Pacific cut production in the fourth quarter by 200,000 tons. The group's annual production capacity is 8.7m tons.

Georgia-Pacific posted

fourth-quarter net income up from \$169m to \$197m, and earnings per share ahead from \$1.89 to \$2.17. For the year, net income rose from \$310m to \$1.02bn, with earnings per share up from \$3.48 to \$11.29.

Quarterly pulp and paper operating profits were up from \$181m to \$308m; building products fell from \$262m to \$108m. At Weyerhaeuser, Mr John Creighton, president and chief executive, said: "Markets weakened in the fourth quarter for the first time in two years. It appears that this weakness is likely to persist into 1996 as customers continue to reduce their inventories."

The comments echo those from International Paper two weeks ago, which said weakness in the markets would con-

time into 1996. Boise Cascade said it could not expect to match its record 1995 profits in 1996.

Both companies reporting yesterday said their wood products businesses were affected by falling prices for lumber. Mr Correll said that "due to the challenging economic conditions... we foresee an extended period of lower prices for our lumber and structural panels".

Weyerhaeuser's fourth-quarter net income rose from \$189m to \$251m, or from 91 cents to \$1.25 per share. For the year, net income rose from \$589m to \$983m, with earnings per share up from \$2.66 to \$4.83. The latter figure excludes a 90 cent charge announced in the third term.

## Record quarter at Digital Equipment

By Paul Taylor

Digital Equipment, the US computer group, confirmed its return to financial health yesterday by reporting record quarterly revenues and strong profit growth, helped by demand for its high-performance Alpha systems.

The results underline the success of a now-completed restructuring programme launched by Mr Robert Palmer, chairman, at the end of 1994. Net income of \$148.8m, or 91 cents a common share, for the second quarter ended December 30, compared with net income of \$18.8m, or 7 cents, for the same period last year.

The earnings soundly beat investors' expectations and the shares jumped \$2 to \$69.50 in morning trading on the New York Stock Exchange.

Total operating revenues for the quarter rose 14 per cent to \$1.95bn, from \$3.47bn a year earlier. This reflected strong demand across the group's range of systems and services.

Product revenues climbed 26 per cent to \$2.35bn from \$1.87bn, in what was the seventh consecutive quarter of

## Digital Equipment

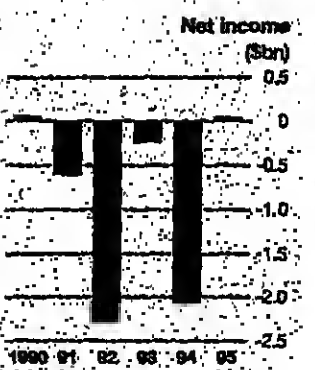
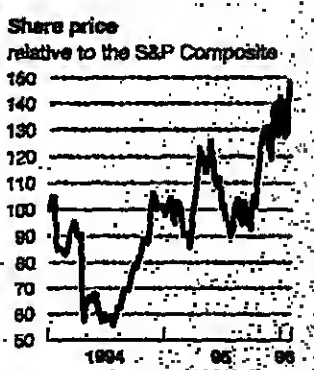
Digital Equipment	
Market capitalisation	\$10.2bn
Main listing	New York
Historic P/E	38.5
Gross yield	0
Earnings per share	3.90
Current share price	\$69.50

Source: FT Econ

year-on-year product revenue growth. Sales of its 54-bit Alpha systems grew 50 per cent over the prior year, driven by strong market demand for AlphaServer systems. Digital's total Alpha-generated revenue, since introduction three years ago, now exceeds \$7bn.

Mr Palmer confirmed that both Digital's systems and personal computer businesses were profitable in the latest period.

Overall gross margins were 35.5 per cent, compared with 33.1 per cent for the compar-



## Overseas business drives growth at Nortel

By Bernard Simon in Toronto

A surge in business outside North America helped push Northern Telecom, the Toronto-based telecommunications equipment supplier, to a 18 per cent advance in net 1995 earnings. The improvement includes an 11 per cent fourth-quarter rise.

Nortel also benefited from an increasingly diversified product line. Switching equipment, which made up two-thirds of revenues in the 1980s, contracted to 44 per cent in 1994 and 40 per cent last year. Wireless revenues grew from 10 to 15 per cent of the total, from virtually nil a few years ago.

Net earnings climbed to US\$473m, or \$1.85 a common

share, last year, from \$408m, or \$1.60, in 1994. The 1994 figures included one-time gains of \$100m, or 40 cents a share, from asset disposals. Revenues rose by one-fifth to \$10.7bn.

Order input reached a record \$2.7bn in the three months to December 31, up 14 per cent from a year earlier. Fourth-quarter earnings rose to \$250m, or 98 cents a share, from \$225m, or 88 cents.

The earnings were in line with analysts' expectations, although one Canadian analyst said yesterday he was surprised by lower cash balances, caused by a build-up in inventory. Nortel told analysts that higher inventories were required to meet strong demand.

Nortel's shares are trading at near-record levels. The shares gained 25 cents to C\$60 in early trading on the Toronto Stock Exchange yesterday, double their level three years ago when the company began a top-to-bottom restructuring.

International revenues climbed to 39 per cent of the total last year, from 32 per cent in 1994 and 13 per cent in 1990. Europe made up three-fifths of sales outside North America, with the rest divided about equally between Latin America and the Caribbean, and the Asia-Pacific region.

The increase in European business was attributed partly to Nortel's strategy of seeking joint ventures with well-known local companies, including

Matra Communications in France, Olivetti in Italy and Germany's Daimler-Benz Aerospace (Dasa).

Mr Peter Currie, Nortel chief financial officer, said the current turmoil at Daimler-Benz had not affected the joint venture, known as Nortel Dasa Network Systems. "They remain committed to telecommunications, as we remain committed to Germany," he said.

Nortel is especially eager to expand its fledgling wireless business. It is in the running for a large contract from a consortium comprising Sprint, the US long-distance company, and several cable TV operators, which aims to set up a national US wireless network.

## Walt Disney beats analysts' forecasts with 3% rise

By Christopher Parkes

The US launch of *Toy Story* and the international debut of *Pocahontas* helped Walt Disney generate record first-quarter earnings of \$496m from revenues up 18 per cent in the three months to end-December.

The 3 per cent profits increase, to 93 cents a share from 91 cents a year earlier, was better than expected.

Analysts' forecasts had been clouded by the view that the film division's record first quarter last time - boosted by

*The Santa Clause* and the video release of *Snow White* - would be hard to beat.

Last time's earnings per share had been bolstered by a 6 cent gain from restructuring at Euro Disney, which this time translated to a loss of \$22m. In the event, film revenues rose 15 per cent, from \$1.77bn to \$2bn, helped by US sales of the *Cinderella* video and international release of *The Lion King* for home viewing.

The quarter, during which the group completed the acquisition of the Capital Cities/ABC broadcasting and entertain-

ment conglomerate, which now awaits final clearance from the regulatory authorities, was also marked by a 14 per cent gain to \$976m in revenues from the theme parks business.

Record attendances at the Californian and Florida resorts underscored the impact of international economic improvements on consumer confidence, as did a 19 per cent increase in revenues to \$910m from the group's rapidly-growing chain of retail stores.

Second-quarter results are likely to show further benefits from the film division's con-

tinuing successes. Disney movies have started the year at the top of the US hit lists, and the international popularity of the innovative animation feature, *Toy Story*, is expected to show good returns.

This year's main animation project, *The Hunchback of Notre Dame*, is not due out until later in the year.

The company, which on Monday raised its dividend for the quarter by 22 per cent to 11 cents a share, said the theme parks benefited from new attractions, including the Indiana Jones Temple of the For-

bidden Eye at Disneyland, Anaheim.

This park, the world's first, is scheduled to undergo an extensive revamp, starting in March, which will spell the end for large sections of the dated Tomorrowland attraction.

Only the bone-shaking Star Tours and Space Mountain, the blacked-out roller coaster, will survive in a Tomorrowland expected to be dominated by science fiction rather than the traditional futuristic "real world" themes of the past.

Euro Disney, Page 18



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Arranged by

January 1996





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<p>\$22,400,000,000</p> <p><b>Chrysler Corporation</b></p> <p>Advice with respect to its modified proposal from <b>Tecelco Corporation</b></p>	<p>\$9,300,000,000</p> <p><b>Turner Broadcasting System, Inc.</b></p> <p>has agreed to be acquired by <b>Time Warner Inc.</b></p>	<p>\$5,700,000,000</p> <p><b>The Seagram Company Ltd.</b></p> <p>has acquired an 80% interest in <b>AICA INC.</b> from <b>Matsushita Electric Industrial Co., Ltd.</b></p>	<p>\$5,460,000,000</p> <p><b>The State Government of Victoria, Australia</b></p> <p>has sold <b>Powercor to PacifiCorp, Eastern Energy to Texas Utilities Company, and Crown Energy Corporation, United Energy</b> in a consortium led by <b>Lifecorp United Inc.</b></p>	<p>\$5,200,000,000</p> <p><b>Crown Cork &amp; Seal Company, Inc.</b></p> <p>has agreed to merge with <b>CarnaudMetalbox S.A.</b></p>	<p>\$4,500,000,000</p> <p><b>Tele-Communications, Inc.</b></p> <p>has entered tracking work for its subsidiary <b>Liberty Media Corporation</b></p>
<p>\$4,474,000,000</p> <p><b>Swiss Reinsurance Company</b></p> <p>Advice with respect to sale of insurance interests to <b>Allianz AG Holding</b></p>	<p>\$3,600,000,000</p> <p><b>International Paper Company</b></p> <p>has agreed to merge with <b>Federal Paper Board Company, Inc.</b></p>	<p>\$3,500,000,000</p> <p><b>International Business Machines Corporation</b></p> <p>has acquired <b>Lous Development Corporation</b></p>	<p>\$3,500,000,000</p> <p><b>W.R. Grace &amp; Co.</b></p> <p>Advice with respect to a management offer for <b>National Medical Care, Inc.</b> and with respect to the proposed spin-off of their subsidiary</p>	<p>\$2,800,000,000</p> <p><b>Enso-Gutzeit and Veitsiluoto Oy</b></p> <p>Advice with respect to merger</p>	<p>\$2,520,000,000</p> <p><b>Central and South West Corporation</b></p> <p>has agreed to acquire <b>SEEBOARD plc</b></p>
<p>\$2,500,000,000</p> <p><b>Zurich Insurance Company</b></p> <p>and <b>Insurance Partners, L.P.</b></p> <p>have acquired <b>Kemper Corporation</b></p>	<p>\$2,400,000,000</p> <p><b>The Broken Hill Proprietary Company Limited</b></p> <p>has agreed to acquire <b>Nigma Copper Company</b></p>	<p>\$2,400,000,000</p> <p><b>Honstoo Industries Incorporated</b></p> <p>has sold its <b>KMCCM unit</b> to <b>Time Warner Inc.</b></p>	<p>\$2,300,000,000</p> <p><b>E-Systems, Inc.</b></p> <p>has been acquired by <b>Raytheon Company</b></p>	<p>\$2,300,000,000</p> <p><b>Union Pacific Corporation</b></p> <p>has acquired <b>Chicago &amp; North Western Transportation Company</b></p>	<p>\$2,200,000,000</p> <p><b>Praxair, Inc.</b></p> <p>has agreed to acquire <b>CBI Industries, Inc.</b></p>
<p>\$2,150,000,000</p> <p><b>Maxxus Energy Corporation</b></p> <p>has been acquired by <b>YPF Sociedad Anonima</b></p>	<p>\$2,160,000,000</p> <p><b>Ciba-Geigy Limited</b></p> <p>has acquired an interest in <b>Chiron Corporation</b></p>	<p>\$1,980,000,000</p> <p><b>Caltex Petroleum Corporation</b></p> <p>has agreed to sell its 50% interest in <b>Nippon Petroleum Refining Company, Limited</b> to <b>Nippon Oil Company, Limited</b></p>	<p>\$1,900,000,000</p> <p><b>Vencor, Inc.</b></p> <p>has acquired <b>The Hillhaven Corporation</b></p>	<p>\$1,900,000,000</p> <p><b>Wolters Kluwer nv</b></p> <p>has agreed to acquire <b>CEH Incorporated</b></p>	<p>\$1,800,000,000</p> <p><b>GE Capital Corporation</b></p> <p>has acquired three businesses of <b>FTT Financial Corporation</b> from <b>FTT Corporation</b></p>
<p>\$1,750,000,000</p> <p><b>U.S. Bancorp</b></p> <p>has acquired <b>West One Bancorp</b></p>	<p>\$1,550,000,000</p> <p><b>National Australia Bank Limited</b></p> <p>has acquired <b>Michigan National Corporation</b></p>	<p>\$1,500,000,000</p> <p><b>Clark Equipment Company</b></p> <p>has been acquired by <b>Ingersoll-Rand Company</b></p>	<p>\$1,500,000,000</p> <p><b>Sveneka Cellulosa AB</b></p> <p>has acquired a 75% interest in <b>Papierwerke Waldhof-Aschaffenburg AG</b> from its owners including <b>VIAG</b></p>	<p>\$1,400,000,000</p> <p><b>Luxottica Group S.p.A.</b></p> <p>has acquired <b>The United States Shoe Corporation</b></p>	<p>\$1,380,000,000</p> <p><b>The Boots Company PLC</b></p> <p>has sold <b>Boots Pharmaceuticals</b> to <b>BASF AG</b></p>
<p>\$1,300,000,000</p> <p><b>Hoffmann-La Roche Inc.</b></p> <p>has agreed to merge <b>Roche Biomedical Laboratories, Inc.</b> with <b>National Health Laboratories Holdings Inc.</b></p>	<p>\$1,140,000,000</p> <p><b>International Paper Company</b></p> <p>has acquired a majority interest in <b>Carter Holt Harvey Ltd.</b></p>	<p>\$1,100,000,000</p> <p><b>Metropolitan Life Insurance Company</b></p> <p>has agreed to merge with <b>New England Mutual Life Insurance Company</b></p>	<p>\$1,000,000,000</p> <p><b>The Actava Group Inc.</b></p> <p>has merged with <b>Orion Pictures Corporation, Metromedia International Telecommunications, Inc. and MCEG Sterling Inc.</b> to form <b>Metromedia International Group, Inc.</b></p>		



CS FIRST BOSTON



INTERNATIONAL COMPANIES AND FINANCE

Euro Disney cuts losses sharply in opening period

By Andrew Jack in Paris

Euro Disney, operator of the Paris-based theme park, yesterday reported a sharp drop in losses to FF1.37bn (\$1.37bn) for the first quarter of the year, in spite of the re-introduction of charges initially waived following its financial restructuring.

loss in the first quarter of last year of FF1.09bn, although it followed the release last November of the group's first full-year profits, which stood at FF1.14bn for the 12 months to September 30.

It was outside the peak season for visitors. It said the 48 per cent reduction in losses, compared with the first quarter last year, came despite FF1.37bn in additional financial charges and leasing costs after being initially waived during the restructuring in 1994.

concerns about terrorism. Euro Disney said the effect of these had been "very little". However, during 1995 it cut its entrance prices and introduced greater flexibility into fees for hotels and food, linked to more aggressive campaigns to market the park.

Euro Disney

Table with 3 columns: 1995-96, 1994-95, 1993-94. Rows: Profit/loss (FF), Operating revenue (FF), Year-end Sep 30.

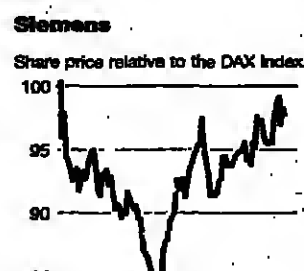
Source: company reports



Siemens upbeat after 12% rise in first quarter

By Wolfgang Münchau in Frankfurt

Siemens, the German electronics and electrical engineering company, yesterday said it was in line to achieve its forecast profit growth of between 20 per cent and 25 per cent in the current financial year.



Share price relative to the DAX index. Source: FT Data

The prediction came as the group revealed that first-quarter net income had risen 12 per cent. Net income for the quarter to end-December rose to DM503m, compared with DM448m in the same period of 1994-95.

One of the driving forces behind the forecast rise in earnings this year is the expected fall in restructuring costs as Siemens' internal reorganisation programme approaches its completion.

Earnings were ahead in the energy, industry and components segments. The semiconductor business, which last year was the biggest contributor to profits after achieving a strong turnaround over the past few years, also improved because of stable prices for memory chips.

Sales were up 6 per cent at DM19.7bn, boosted by a strong performance in foreign sales. Orders, however, showed a reverse pattern, with domestic orders stronger than the increase in foreign orders, to yield a total of DM22.2bn, unchanged from the same period in 1994-95.

Siemens said: "Both domestic and international products business showed above-average growth, helping to maintain orders at last year's high level, achieved with the help of major international projects."

The fall in international orders, however, is the result of the D-Mark's strength. Expressed in local currencies,

international orders were up 2 per cent.

"The components, industry and communications segments once again posted high, in part double-digit, growth rates. The semiconductor group showed equally strong growth in Germany and abroad," Siemens said.

"Business in telecom components used for digital public exchange systems and mobile telephones as well as for memory devices and chipcard ICs remained buoyant."

EWU, Siemens' power generation unit, expects new orders in the four months to January to be "on target", allowing it to match the full-year figure of DM5bn achieved in the year to September 1995, AFX News reports from Mülheim.

The company had reported new orders in the first quarter down 52 per cent to DM1bn from DM2.2bn a year earlier.

But Mr Adolf Huetli, chairman, said the decline was mainly caused by the postponement of certain large projects.

"We expect new orders to be on target and we are very confident we can achieve our goal for the year of matching last year's new orders," Mr Huetli said. Several big orders in January, including a DM550m contract with the UK's Seabank announced this week, would boost the four-month figure, he said.

BBV profits advance 16% for year

By David White in Madrid

Banco Bilbao Vizcaya (BBV), the biggest Spanish banking group in terms of its stock market value, yesterday announced a 16 per cent rise in attributable net profits last year, from Ptas72.33bn to Ptas84.01bn (\$675m).

Predicting a further increase of at least 10 per cent this year, Mr Emilio Ybarra, chairman, said earnings growth was the strongest among main Spanish banks. BBV's chief rivals - Banco Santander, Banco Central Hispanoamericano and Argentaria - are due to announce 1995 results this week.

Mr Ybarra said the results had exceeded targets set for the year, the first year in a "1,000-day plan" aimed at securing leadership of the Spanish banking sector.

The bank is proposing a final dividend of Ptas72 a share, bringing the total for the year to Ptas196 compared with for 1994, an increase of 13.8 per cent. Mr Ybarra said a further increase of 10 per cent or more was planned for the current year.

The relatively strong rise in consolidated net profits came after extraordinary losses of Ptas25m, compared with extraordinary profits of Ptas4.29bn the year before, and increased provisions for bad debts.

Operating profits rose by what the bank termed a "spectacular" 38.8 per cent to Ptas18.9bn.

BBV's development last year was marked by a drive for international expansion through the purchase of Banco Continental in Peru, along with Peruvian partners, and an increase in its stake in the Mexican Probrusa group, of which it now holds 70 per cent.

At the same time the group invested Ptas75bn in its Spanish industrial portfolio where it has built up its presence in the Telefonica telecommunications group, the stainless steel company Acerinox and the Repsol oil and gas concern.

Mr Ybarra said he was confident the bank would achieve consolidated pre-tax earnings this year of Ptas180bn, compared with last year's Ptas145.24bn, up 26.5 per cent over 1994. Provisions for loan risks were increased by 5.9 per cent last year from Ptas6.72bn to Ptas7.52bn.

Non-performing loans were now almost 38 per cent covered by provisions, compared with 70 per cent a year ago, Mr Ybarra said.

The group's operating profit, meanwhile, rose by 8.2 per cent to Ptas304bn, but Mr Ybarra said that without the Peruvian and Mexican acquisitions the increase was only 0.4 per cent.

Roche history highlights failings

By Daniel Green

Roche, the Swiss pharmaceutical group, was clumsy and self-righteous in its handling of "series of unfortunate incidents" in the 1970s that did "enormous harm to the company's reputation".

That is one of the conclusions in a frank official history of the company, published yesterday at the start of a year of celebrations of Roche's centenary.

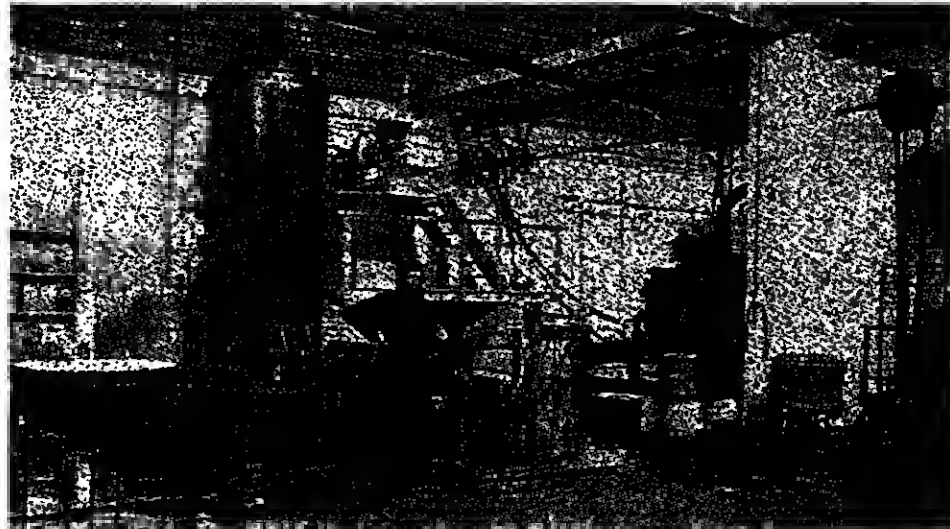
The "incidents" include accusations of profiteering from the sleeping pill Valium, which had made the company the biggest drug maker in the world in the 1960s, as well as a chemical accident.

The dispute led to enforced price cuts from the UK government to which Roche retaliated by withdrawing discounting arrangements. Then Roche gave journalists and television crews visiting the headquarters in Basel to cover the story "short-shrift", which only served to harden the media's already negative attitude.

The book, written by Professor Hans Peyer, a Swiss historian, also criticises Roche's management of the time over the "Stanley Adams affair".

Mr Adams was a Roche executive who, in 1972, passed confidential documents to the European Commission, which led to a fine for breaching EC trade rules. The leaking of the documents was illegal under Swiss law and Roche pursued Adams through the courts until he was jailed in 1976.

The hounding of Mr Adams prolonged the bad publicity over the trade rules and other matters. "There can be no doubt that a quick solution to the affair... would have been better for Roche than insistence on its legal rights with concomitant damage to the company's image," says Prof Peyer in the book.



The driving force behind Roche's success has been its ability to make and market innovations

Roche management tried to conceal antiquated financial controls. The vast fortune being made from Valium - the Roche share price multiplied 10-fold during the 1960s - shielded the company against pressure to restructure.

The splitting of the company into divisions began only in 1974. In 1979, after Mr Jann's departure, it issued its first annual report that included consolidated accounts.

What above all made Roche a success was its ability to make and market innovations. It is a skill that has dominated from its founding by the son of a Basle silk ribbon weaving family, through the privations of world wars and depression, to the recruitment of an outsider, Mr Fritz Gerber, as chairman in 1978.

Under Gerber's leadership, the errors of the 1970s gradually became history and the company recovered its poise. Today it is the most valuable company in its sector with a market capitalisation of almost SF90bn.

Roche will give a bonus to shareholders in honour of the centenary of the company's founding in 1896. The size will be revealed with the 1995 results scheduled for April 24.

In addition Mr Paul Sacher, 90, who has been on the board of directors since 1938, is to retire.

Mr Lukas Hoffmann and Mr Jakob Oeri will also retire from the board at the annual meeting, with Mr Andres Oeri and Mr Andre Hoffmann proposed as new board members.

The Hoffmann and Oeri families own more than half the Roche voting shares in issue. See Observer, Page 30

EUROPEAN NEWS DIGEST

BPI ahead 22% on securities trading

Banco Português de Investimento, Portugal's leading investment bank, yesterday reported a 22 per cent increase in net consolidated profits for 1995 from E27.9bn in 1994 to E33.7bn (€33.7bn). The group announced the profit increase four days after launching a E1.32bn takeover bid for Banco Fomento a Exterior, a bigger state-controlled company. The success of the offer depends on government approval.

BPI said total assets rose 21 per cent in 1995, from E21.187bn to E25.396bn. The group's strongest growth area was in securities trading and portfolio investment, where earnings increased 69 per cent, from E2.7bn to E4.7bn. Total lending rose 17 per cent, with a 41 per cent increase in mortgage loans and a 38 per cent rise in car-purchase loans. However, total deposits fell 4 per cent to E26.1bn. Earnings from financial intermediation and fee-based operations rose by less than 1 per cent each to E20.5bn and E3bn respectively.

Provisions against bad debt fell 33 per cent to E4.2bn. BPI said loans more than 90 days overdue fell to 4.3 per cent of total credit, compared with 4.9 per cent in 1994. Provisions covered 104 per cent of overdue loans in December, the bank said. Peter Wise, Lisbon

BNP, Dresdner in Hungary move

Banque Nationale de Paris and Dresdner Bank of Germany have each taken a 50 per cent stake in Hungary's BKO Bank, a joint venture bank which they helped found in 1990. The two banks have increased their stakes from 37 per cent by acquiring the 26 per cent held by Kereskedelmi Bank, a large state-owned Hungarian commercial bank, BKO said yesterday.

Unlike many countries in the former Eastern bloc, Hungary has encouraged foreign banks to set up local operations. About half of the country's 40-odd commercial banks are either subsidiaries of western banks or majority foreign-owned. BKO said preliminary results showed it had increased its balance sheet total to F665m (€665m) in 1995, up from F222bn in 1994, while net income rose 30 per cent to F11.8m. Virginia Marsh, Budapest

Premafin replaces chairman

Premafin, the troubled Italian holding company, has moved to distance itself from Mr Salvatore Ligresti, known as "the king of Milan concrete", by replacing him as chairman. The move marks a further downturn in the fortunes of Mr Ligresti, who became one of the first Italian businessmen to be caught up in the Tangentopoli bribes scandal and is still involved in court hearings.

Mr Ligresti, who leaves Premafin's board but remains majority shareholder, has been succeeded by Mr Carlo Gianini, the vice-chairman, who has been implementing the rescue plan put in place when Mediobanca, the Milan merchant bank, came to the aid of the heavily indebted group in 1993. Mr Ligresti last year also surrendered the helm at Grassest, the group's construction arm, but remains in charge of Sai, the insurance company regarded as the jewel of the Premafin portfolio. John Simkins, Milan

Saurer cuts senior management

Saurer Group, the troubled Swiss textile machinery and components maker, will take a charge of SF19m (€18m) in 1995 that will cover the costs of shutting a finance company in Monaco and buying out the contracts of some of its directors and management. Mr Ernst Thomke, chief executive, said three members of Saurer's board of directors had already left and that Saurer's central management was also being cut back sharply. While this would save SF7m in 1996 salaries, he said there were also high settlement costs connected to the cuts. By 1996 the savings on salaries should amount to SF7m compared with 1994. Saurer expects a net loss of SF70m in 1995, after a loss of SF27.7m in 1994. The 1995 loss includes restructuring charges of SF67m. Reuter, Zurich

The German cartel office will not rule on the takeover battle between Holzmann and Hochtief, two of Germany's biggest construction companies, until at least April. The cartel office was originally required to report by the end of this month but said further investigations were necessary. Michael Lindemann, Bonn

Setta, the newly-privatised French tobacco company, reported a 1.8 per cent rise in net profit to FF7670m (€182.8m) last year, chiefly because of better returns from the tax revenue it holds short-term before passing them on to the government. Setta said operating profits fell from FF1.01bn in 1994 to FF720m last year because it had lost market share in France, where overall sales had been depressed because of value-added tax increases. By contrast, foreign sales rose 5 per cent. Setta, which last month bought ZPT Radom, the third largest cigarette maker in Poland, said it hoped for "significant growth" in profits this year. David Duchan, Paris

The new managing director of Fiat's core cars division is to be Mr Roberto Testore, head of the company's Coman automation subsidiary, according to a report by Ansa news agency yesterday. Fiat refused to comment and said a decision on a successor to Mr Paola Cantarella would be announced on January 31. John Simkins

In this case, our clients did the consulting.

Towers Perrin is pleased to announce that the following individuals have been promoted to Principal within the firm, based on recognition by clients and peers:

- Clive G. Aaron Melbourne
Michael Almagro, Jr. Hartford
John H. Beck London
William T. Bigger Boston
Joseph J. Bierwirth Cincinnati
John J. Blizchak, Jr. Tampa
Joan Boughton Chicago
Duncan I. Brown London
Scott C. Caldwell New York
Mark W. Campbell Calgary
Claudette Caslin Toronto
Christopher S. Carrasco Stamford
Falleto S. Coelho Filho Sao Paulo
Daniel R. Collins Philadelphia
Francis H. Driven Amsterdam
Christian H. Emerson Stamford
Michael H. Freeman Sydney
Alan F. Huret Woking
Christopher M. Johnson London
Thomas J. Keibler Philadelphia
Michael E. LaCombe Los Angeles
David J. Ledigland Stamford
Ricardo A. Longoria St. Louis
Matthew J. Lunsier Philadelphia
Alfred L. Marchewald Frankfurt
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Yves McGeale Toronto
Joseph Mongelli Boston
Rodney A. Morgan Jacksonville
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Marcus H. Raffae Boston
Ray H. Shank New York
Martha B. Sherwood New York
Gregory R. Simidjian Hong Kong
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Further loan for Bremer Vulkan

By Michael Lindemann in Bonn

Bremer Vulkan, the troubled German shipyard whose share price saw-sawed earlier this week, yesterday said it had received a further loan of about DM200m at Dörries Sebrmann, one of its engineering subsidiaries.

These problems were aggravated last autumn when it emerged that the company faced further problems related to rising costs at its Bremen yard.

Although Bremer Vulkan said it had orders on hand worth about DM17bn there are persistent rumours that the company is selling its ships at prices below production costs because its costs are too high.

Executives indicated that Mr Wagner, who was chief financial officer at the German subsidiary of the engineering group Asea Brown Boveri, may have off the loss-making engineering units and concentrate on the group's core shipbuilding activities. "There will have to be a new concept for the company," said one banker.

Mr Wagner is likely, however, to be able to rely on support from the heavily-indebted city state of Bremen - where Bremer Vulkan is the biggest single employer - and the north-eastern state of Mecklenburg-Vorpommern, home of the three east German yards which are part of the shipbuilding group.

However, the company still has to hammer out a DM175m package with its banks and several state governments to cover the costs of three east German yards which Bremer Vulkan has committed itself to invest in by 1997.

Mr Udo Wagner, the company's new chief executive who starts work next week, is also expected to draw up proposals

NORTHERN ROCK BUILDING SOCIETY. \$100,000,000 Floating rate notes 1996. Notice is hereby given that for the interest period from 22 January 1996 to 22 April 1996 the notes will carry an interest rate of 6.4375% per annum. Interest payable on 22 April 1996 will amount to \$160.06 per \$10,000 note and \$1,600.55 per \$100,000 note. Agent: Morgan Guaranty Trust Company JPMorgan

Birmingham Midshires Building Society. \$200,000,000 Floating Rate Notes 1998. The notes will bear interest at 6.3925% per annum for the interest period 22 January 1996 to 22 April 1996. Interest payable on 22 April 1996 will amount to \$158.94 per \$10,000 note and \$1,589.39 per \$100,000 note. Agent: Morgan Guaranty Trust Company

Gencor Limited, Gengold Limited, Kinross Mines Limited, Winkellhaak Mines Limited, Leslie Gold Mines Limited, Bracken Mines Limited, Randex Limited. Cautionary announcement. On 16 January 1996 Gengold announced that application had been made to the Government Mining Engineer and the Commissioner for Inland Revenue for a single mining authorisation over most of the Swaziland goldfield and the filing of relinquishing between Kinross, Winkellhaak, Leslie and Bracken, together with certain adjacent mineral rights.

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INTERNATIONAL COMPANIES AND FINANCE

# New chief seeks to lift Goodman Fielder gloom

David Hearn believes that he can succeed where his four predecessors have failed, writes Nikki Tait



David Hearn: sees cost cuts but "without radical surgery"

To describe the job of running Goodman Fielder, Australasia's largest food manufacturer, as a poisoned chalice might be a touch unfair. But it is a cup which has been passed to four chief executives in six years. Three have left without seeing the company move off the profits plateau established in the late 1980s, while shareholder angst over the lacklustre share price performance has multiplied. Now the holder is Mr David Hearn, brought in from United Biscuits of the UK last September after institutional ire bubbled over into a public row with the Goodman board and led to a general overhaul of management and directors. This time, analysts are more hopeful. Initial optimism that 1995-96 could see a significant lift in profits has dissipated, largely because of the company's caution at its annual meeting in November. However, most pundits are penciling in a marked improvement in the following 12 months. Analysts at Prudential Bache, for example, forecast profits of A\$100m (US\$73.2m) in 1995-96, compared with last time's A\$97.5m, but are looking for a near 13 per cent rise in earnings per share in 1997. With Mr Hearn still unpacking his recently-arrived UK furniture, it is too early to tell whether this optimism will be justified. But already there are signs that the winds of change are blowing. An internal man-

agement reorganisation has been instigated, grouping businesses on product lines rather than on an overlapping product/geographical basis, for example. A new centralised marketing role has been created. There has also been talk of sharper cash management systems. One big question, however, is whether any amount of improved internal management will overcome Goodman's core problem - the commodity nature of its food products, and the associated difficulty in pushing up margins. The company was put together through a series of acquisitions and mergers in the debt-happy 1980s, and today about one-third of its A\$4bn annual sales come from milling and baking, poultry and food ingredients. Mr Hearn acknowledges the structure of the business, but argues that the absence of fancy branding opportunities is not necessarily a death-knell. "I don't know if the portfolio is correct, in that it'll always be exactly this way," he says, "but I don't see any reason why it is incorrect." "We can make good returns out of our current portfolio. I don't feel we're too much in the commodity area, but I do think we don't put enough effort on being really differentiated in both branded and unbranded products. The key to making money, particularly in a commodity area, is a combination of very strong cost

control and a focus on delivering differentiation in your product mix." He cites Goodman's starch business, and its development of the "Hi-maize" product, which raises fibre content without altering taste or appearance, as an example of path the company should follow. The development of packaged pre-mixes tailored to end-users' requirements rather than the simple sale of bulk flour, is another. The new chief executive also argues that the Australian food retail market, traditionally more price-driven than in the UK or much of northern Europe, is running in Goodman's favour. "Retailers here are trying to move towards a more quality base - fresh, particularly, is the big area they're fighting over," he says. "I think it places Goodman quite well. There are relatively few retailers and therefore they have a lot of power. Our size and scale allows us to have good relationships because we're more equal, and should also give us cost advantages. But our desire is to move the product mix more upmarket and that's something we have in common with the retailers." Cost-cutting, though, will be critical. "Nobody in the world is running a significant food company without thinking every year of having to take significant cost out. I think there's a bit of cost to come out, but without having to do radical surgery." Mr Hearn downplays factory closures, but cites transport, distribution, warehousing, logistics, administration, and finance, as areas where there is either "significant duplication" between divisions or scope for efficiencies. Initially, it looked as if progress might have to await the overdue appointment of a new finance director. But last Friday, Goodman stepped up the tempo, appointing Mr Tony Sherlock, a partner at Coopers & Lybrand, to co-ordinate several financial projects central to the company's "urgent agenda" while it continues the search for a permanent finance chief. Mr Sherlock, who has handled a number of high-profile corporate administrations, is well-known in Sydney circles as a company doctor. If repositioning and restructuring the group at home are the main priorities, there is also the question of how Goodman should position itself overseas. This has been an ambivalent issue in recent years, with one former chief executive forecasting A\$1bn of sales in Asia by 2000, only to have his successor downplay short-term expansion there. Previous managements sold the Wattie's canned and frozen food business in New Zealand to Mr Tony O'Reilly's Heinz group and, more recently, the Singapore-based food distribution interests. As a result, today's company looks rather unbalanced. It comprises a large Australasian business, a number of fairly embryonic joint ventures in Asia, and a significant baking unit - annual sales are over A\$1bn - in Europe. A sale of the European business is periodically mooted in Australia, but Mr Hearn downplays the possibility. Europe, he says, should fit for the medium term. "The two large markets for our type of product - western food - are clearly the US and Europe, so if we're going to have aspirations to be a world-class player, we're going to have to be in one of them." "We have a business of real scale, mirroring some of our advantages here, in Holland, and I'm keen to develop it." But Asia, he admits, may be a slow haul. Once exports sales are added in, Goodman's turnover in the region is about A\$150m. "We're going to push our exports very hard, but, no, we're not going to rush to exploit or expand our in-field operations in Asia for while," says Hearn. "We're going to get our business here humming before we go offshore. We've got some good joint ventures, and that's more than enough for us to chew on." In the short-term, the stock market may not mind too much. It has pushed Goodman's shares up by about 30 per cent since Mr Hearn's arrival, largely on the hope that a steady, experience hand at the tiller will deliver results. Even so, analysts warn that the window of opportunity is not wide. "The market does have enhanced confidence - but I reckon he's got about 12 months," says one.

NEWS DIGEST

## Two Japan banks, broker downgraded

Moody's, the US credit rating agency, said yesterday it had lowered the long-term senior debt ratings of two of Japan's largest banks and a leading stockbroker. Sakura Bank's long-term debt rating was reduced from A2 to A1, while its short-term ratings were lowered from Prime 1 to Prime 2. The Long-Term Credit Bank of Japan's long-term senior debt rating was reduced from A3 to Baa1. LTCB's short-term rating for deposits was left unchanged at Prime 2. The agency said both banks' creditworthiness had suffered from the large volume of problem assets on their loan books. They would require several more years to restore their balance sheets to health, a period in which their stronger competitors were likely to make better progress. Moody's also lowered the long-term senior debt rating of Yamachi Securities, Japan's third largest stockbroker, from Baa2 to Baa3. The broker's financial fundamentals and franchise had suffered a severe deterioration in the past five years due to the collapse of Japanese asset prices, the agency said. The equity bear market had been accompanied in Yamachi's case by insufficiently aggressive strategic repositioning and cost control. The company's commercial paper rating was left unchanged at Prime 3. Gerard Baker, Tokyo

## Smorgon may float steel arm

Smorgon Consolidated Industries, the large privately-owned Australian conglomerate, said yesterday it had appointed JB Were and SBC Warburg Australia as joint lead managers for a potential stock market flotation of its steel business. Smorgon Steel has been estimated to be worth more than A\$800m (US\$585m). Last February, the Smorgon family announced it had decided to break up and sell its diverse business empire, which also takes interests in the meat, forestry and plastics industries. The steel group is one of the main elements in the disposal plan. Despite the appointment of the joint lead managers, the company still plans to pursue a parallel trade sale-notation process, with a decision on which option to take being made later. Nikki Tait, Sydney

## Premier sells Clicks chain

Premier Group, the South African food, pharmaceuticals and retail group that has R1bn (\$274m) of debt, has sold its Clicks retail chain to Malbak, the South African consumer group, for R243m. The deal, which is effective retroactively to November 1 1995, ends months of delays as Premier held out for 356 cents a share for its 50.5 per cent stake - more than double previous estimates. Clicks' business comprises a national minimarket chain of 159 outlets, serving upper income groups; South Africa's fastest growing retailer, the 127-store Diskom chain; and Musica, a specialist music retailer with 88 stores. Malbak already has significant market shares in the food, paper, plastic and metal packaging, medicinal and health-care, motor and furniture retail and electrical appliance industries. Premier will delist the existing Clicks stock and give shareholders the option to reinvest in a new Malbak subsidiary, New Clicks Holdings. Mark Ashurst, Johannesburg

## Wesfarmers warns of profits fall

Wesfarmers, the Western Australian rural products group, yesterday warned of a profits fall - and possible cut in dividend payments - due to a depressed wool market and a downturn in the housing cycle. The company is due to announce interim financial results on February 9. Nikki Tait

# Taiwan group's offer to test appetite for China stocks

By Louise Lucas in Hong Kong

Investor interest in China stocks - companies with a strong exposure to China - is to be put to the test with the announcement by a Taiwan-owned noodle manufacturer that it plans to raise up to HK\$1.38bn (US\$178m) with a listing on the Hong Kong stock exchange. China stocks - commonly known as "red chips" - fell out of favour towards the end of last year. Tingyi (Cayman Islands) Holdings

Corp is offering a total 811.09m shares at a price of between HK\$1.40 and HK\$1.70. Of these, 121.68m will be sold to the Hong Kong public; the balance will be placed in both the colony and internationally. The company, founded four years ago, is one of the biggest names in instant noodles in China. Its "Master Kang" is China's leading brand of convenience food and it produces more than 30 kinds of instant noodles. By the year end, the company aims to have 58 production lines in the

mainland making some 14.3m packs a day. In common with a number of recent China offerings, Tingyi is using the book building method. The top price of \$1.70 puts the stock on a multiple of 12.6 times 1995 earnings on a fully diluted basis; the bottom price represents a multiple of 10.3 times. The issue comes on the heels of Jingwei Textile Machinery Co's HK\$201.6m offering, originally scheduled for November but postponed as the share prices of Chinese companies

sank to record lows amid concerns of aid subsidies and import tariff reductions creating a more competitive marketplace. Jingwei is the year's first H share listing, the name given to Chinese enterprises trading on the Hong Kong stock exchange. Shares in Jingwei will start trading on February 2. Jingwei is the cheapest H share to date: the HK\$1.29 a share price tag translates into a price earnings multiple of 7.2 times 1995 earnings and 6.3 times this year's earnings. That compares with the 17.9

times multiple pitched by pioneering H share company Tsingtao Brewery in July 1993, at the height of the frenzy for China equity. By contrast, investors spent much of last year shunning red chips. Apollo, a mainland health and tonic drinks group, saw its HK\$300m issue just 22 per cent subscribed when it offered shares in Hong Kong last month. Global co-ordinator and sponsor to the Tingyi issue is Deutsche Morgan Grenfell; Jingwei is sponsored by Pergrine Capital.

# A novel way to enter the Olympics

Best... want a ticket to the Sydney Olympic Games in 2000? If so, help supply the funds to build the A\$463m (US\$339m) stadium, where the opening ceremony and many of the track and field events will be staged. That is the innovative deal being offered by Multiplex Construction, the building company which yesterday won the contract to build the 110,000-seat stadium, and its local financial advisers. There is only one catch: you have to be Australian. The consortium is proposing to raise A\$200m of equity funds for the project through the sale of units in a stock exchange listed property trust. The 30,000 units will be sold at A\$10,000 each, and will give each holder the right to buy a ticket to all Olympic events held in the stadium. The Olympic ticket access will apply only to the original

The builder of the stadium has hit upon an innovative funding device, reports Nikki Tait

holder of the property trust unit, and will be lost once the units are traded. However, the ownership of units will continue to entitle investors to 30-year membership of the stadium after the Sydney games have finished and to dividends paid out by the trust. Financial advisers admit that the funding idea is novel, but say it has already been quietly tested. They are confident there will be demand for the units - not least from smaller companies, unable to afford big sponsorship deals but anxious to take their favoured clients to the games. A limit is likely to be placed on the number of units which

any individual or single entity can apply for - probably six - and the present plan is to accept applications only from Australian residents or companies. If all goes smoothly, the funding scheme should help ease the pressure on state government finances. The New South Wales government will still contribute A\$135m to the stadium project, but this sum is now A\$50m less than the amount allocated in the 1995-96 state budget and A\$157m below the figure estimated in 1992 when Sydney made its bid for the games. "The government believes the Australia Stadium 2000 proposal will minimise the financial impact on the state's

Olympic Games capital works budget, and minimise the commercial risk to the government," Mr Bob Carr, state premier, said yesterday. There have been fears in Sydney recently that the cost of hosting the games could escalate well beyond original forecasts. Multiplex, whose construction partner for the stadium will be Japan's Obayashi, edged out rival bidders - including the Lend Lease/Transfield and CRH/Baulderstone Hornibrook consortia - to win the contract. Its principal financial advisers were Hambros Australia and Sydney-based Macquarie Bank. A prospectus for the stadium trust is due to be issued in about three months, and construction of the stadium is likely to begin in August, several months later than originally projected.

**Scudder, Stevens & Clark, Inc.**  
We are pleased to announce the following appointments effective January 1, 1996:

**Managing Directors:**

Mark S. Casady	Edmund B. Games, Jr.	Pamela A. McGrath
Michael J. Curran	Jim Hiatrides	Kathleen Millard, CFA
Paul J. Elminger	Peter W. Jenkins	William F. Truscott

**Principals:**

Nicholas Anisimov	Susan E. Gray	David C. North
Brian M. Beitner, CFA	Brian J. Harris	Lorie O'Malley
Michael Bellaro	Debra A. Hanson	James W. Pasman
Mark Boyadjian, CFA	Kevin D. Holt, CFA	Patrice Pilkonis
K. Sue Cote, CFA	John J. Lee, CPA	Michael J. Rizzo, Jr.
Stephen J. Dillenburg	John R. Marchand	Michael K. Shields
Edward E. Dohrmann	Eleanor E. Mascheroni	Michael T. Sullivan
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GRANADA CAPTURES FORTE

Beyond rebuilding morale at Forte, Gerry Robinson faces three challenges, explain David Blackwell and Martin Dickson

The war is won but big battles still lie ahead

Granada Group has proved victorious, but now faces a much more difficult proposition: living up to its promise to make Forte's assets perform, thus enhancing the earnings of the combined group.

Other measures include the closure of Forte's London headquarters in Holborn, where 280 people work, and absorbing all central functions into the existing Granada team.

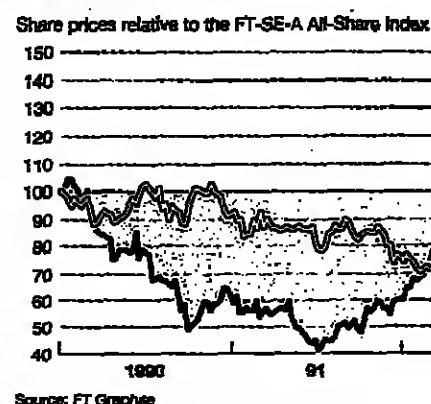
Further savings of £20m will come through a reduction of 5 per cent on food and beverage purchasing prices - a level "at the lower end of Granada's expectations".

Younger customers, while revitalising the remaining 330 outlets, Granada says that the increased sales will yield annual profit improvements of 22m.

As for debt, Granada's position would be transformed by the sale of the upmarket hotels and other assets. Analysts estimate that speedy disposals at book value, coupled with free cash flow from the combined businesses, could cut debt to £1.25bn by September.

Finally, Granada plans to axe Forte's symbols of corporate largesse. The corporate jet is expected to go, and the Prix de L'Arc de Triomphe will be looking for a new sponsor.

Reversal of fortunes



DISPOSALS - By Scheherazade Daneshkhlu

Top hotels go on the auction block

Overnight, Granada has become the UK's largest hotelier with more than 60,000 rooms worldwide to add to its modest 1,400. But if all goes to plan, it expects to shed almost half that number - 27,000 - within six months through the disposal of Forte's 18 upmarket Exclusive hotels and the 85-strong Meridien chain.



GERRY ROBINSON - By David Blackwell

Marathon man almost lost for words

Gerry Robinson, who has shown many times in the last 60 days that he long ago kissed the Blarney stone in his native Ireland, was almost lost for words yesterday. "I'm delighted," Granada's chief executive told the hastily arranged press conference at London Weekend Television after his victory over Forte was announced.

SIR ROCCO

'I'll be back' says heir to empire

Sir Rocco Forte is a hotelier, born and bred. He never contemplated a career other than that of joining the company his father, Lord Forte, founded with the Meadow Mill Bar in London's Regent Street just over 60 years ago, writes Scheherazade Daneshkhlu. As the only son, Sir Rocco was bound to be compared with his father. In an incident recorded in Lord Forte's autobiography, even his mother once said to him: "If you are ever as good as your father..." before being told by the then Charles Forte that such talk would only cause a rift between father and son.

THE OPTIONS FOR WHITBREAD - By Rodrick Oram

Prime catch has slipped through the fingers

"We gave it our best shot," Whitbread said yesterday as Granada's victory prevented it buying Forte's roadside restaurant chains and budget hotels for £1.05bn. "We're disappointed but it was an opportunistic deal. We will continue to build up our restaurants and hotels through other acquisitions and organic growth."

Whitbread admires PizzaExpress, which has outperformed Pizza Hut - its joint venture with PepsiCo, US owner of the brand. Whitbread also wants to expand its very limited foreign exposure to restaurants. Its bridgeheads are Churrasco and Concepto, two German steak house chains, and The Keg, a North American steak house chain.

Restaurants in Australia. Losing out on Forte's Travelodge hotels is a particular disappointment. Coupled with its own Travel Inn chain, they would have made the largest budget chain in the UK. Fortunately, Whitbread has reinforced the credibility of its hotel strategy by paying £180m for 16 Marriott hotels in the UK and the national franchise. This made it the third largest UK hotel chain and gave it a more upmarket brand.

WINNERS IN THE CITY - By David Wighton

Biggest round of fees since Guinness bought Distillers

In terms of City fees and expenses, the bid will be the most expensive since the Guinness takeover of Distillers in 1986. Ignoring any fees Granada will incur when it breaks up Forte, the total expenses was put together by Glenisla Group, KKR's London affiliate set up by Mr Ian Martin - one of Granada's non-executive directors. International hotel chains

As it lost out on the Forte assets for reasons beyond its control, the failure should not be added to its list of near misses - such as the Chef & Brewer pub chain and Courage, the brewer. But having excited the City with the prospect of a quantum leap in its business, it will have to work hard to achieve a similar jump in scale in other ways. It currently runs restaurants with some £800m of turnover a year, under such names as Beefeater, TGI Friday's and Pizza Hut. It continues to expand the chains rapidly, adding, for example, about 15 Beefeaters a year and two or three Fridays, which are much larger units.

Granada's brokers are also judged to have performed well, both in terms of selling the deal to both sets of shareholders and also in last week's stock market raid. In retrospect, the timing of the raid was perfect and is thought to have prevented Whitbread from buying shares in the market to bolster Forte's chances. As for Forte's advisers, there was a potential for disaster, according to one City observer. "Given the large number of advisers and the eggs involved, it was a recipe for a shambles."

The 18.8m shares he holds in Forte along with share options and his emoluments as director should gross him about £73m, but a portion would be spent on settling debt raised to fund the purchase of 3.9m Forte shares on Friday at 37p a share and a further 525,000 at 377p on Monday. Ms Olga Peitzel, his sister and a Forte director, also has shares and remuneration worth about £40m. "I'll be back," was all Sir Rocco would say as he left Forte's grey and black headquarters at Holburn last night.







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## COMPANY NEWS: UK

### Berkeley makes £73m cash call

By Andrew Taylor,  
Construction Correspondent

Berkeley Group, regarded as a bellwether of the UK housing market and one of its most profitable companies, yesterday launched a £73.1m (£12.6m) rights issue to buy land and finance "possible" acquisitions.

Last month Westbury, a rival housebuilder, announced a £32.2m rights issue to help fund its £60.7m purchase of BICC's housebuilding subsidiary Clarke Homes.

Berkeley said yesterday that decisions by a number of broadly-based construction and engineering groups to withdraw from housebuilding had created opportunities for specialist housebuilders as the UK housing market appeared to be on the point of reviving.

Mr Tony Pidgley, group chief executive, said net reservations - agreed sales on which a deposit had been paid - had risen by about 30 per cent in the past four months compared with the same period a year earlier.

"There definitely has been more life in the market since

the autumn," said Mr Pidgley who did not rule out a "modest acquisition" but said land purchases were more likely.

The company is regarded as having a good record in judging the housing market cycle. It sold much of its land before prices really began to plummet in the recession. It also was an early buyer of land in 1992 before house sales revived briefly in 1994.

It is offering shareholders two new shares at 45p each for every nine already held.

Following the announcement, Berkeley's shares slipped 5p to 504p.

The company, which specialises in up-market executive homes, has recently announced plans for a series of speciality town centre housing developments.

Some of the money raised from the issue, which has been underwritten by SBC Warburg, is expected to be used to fund similar town centre schemes.

Said investments which has an 11.35 per cent stake in the group, and Berkeley directors have agreed to subscribe for 11.8 per cent of the new shares.

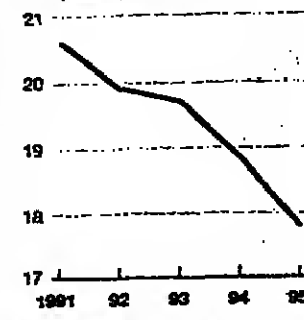
### LEX COMMENT Railtrack

A lively battle has to be fought before Railtrack can be privatised. Predictably, the company wants the government to write off most of its debts. Equally predictably, the UK treasury is against it. Who is right? At 2.4 times, Railtrack's interest cover certainly looks tight, even for a utility. But the cash flow statement shows a more generous figure: 5.4 times. Arguably, some provisions should be stripped out, bringing cash flow interest cover down to 3.3 times. But even this figure is still pretty healthy. And the provisions may well, of course, turn out to be over-generous.

For investors, a tight balance sheet would not be all bad news. It would offer some protection from rash diversifications. And it would give less opportunity for a Labour government to take cash out through a windfall tax. The danger is that ministers will opt for a limp compromise. They are certainly likely to be tempted by Railtrack's hints of an investment renaissance if debts do not get in the way. These enticements should be taken with a hefty pinch of salt. The glamorous projects are unlikely to be viable without big dollops of subsidy. Moreover, history suggests the company will be much more able to finance investment than its current performance indicates - by cutting both capital and operating costs. The electricity sector has shown the scale of the mistakes that can be made. Ministers have only themselves to blame if they make them again.

UK railways

Total passenger miles (000)



Source: British Rail Years to March 31

### £60m charge at Zeneca

By Daniel Green

Zeneca, the UK's third biggest pharmaceuticals company, is to take a one-off exceptional charge of about £60m to pay for restructuring of UK manufacturing and distribution.

The company would not specify where job cuts would fall, only that they would be concentrated among the 2,600 UK staff that do not work in R&D. Zeneca's main sites in the UK are in Macclesfield and Alderley Park, both to the south of Manchester.

The company described fourth quarter pharmaceutical sales as strong and said

total 1995 sales growth was ahead of the third quarter trend.

Price cuts in Europe, especially the US and Italy, were offset by rises in the US where its Casodex anti-cancer drug had performed well.

"Profits [in pharmaceuticals] for the year are expected to show a growth rate slightly higher than that reported at the half year," Zeneca said.

Pharmaceutical sales for the first six months were £1.03bn, 5.5 per cent up on the same period in 1994.

The group's agrochemicals and seeds division saw sales growth significantly above

1994, boosted by a widespread rise in volumes. "An extended season in the northern hemisphere and strong sales in South America contributed to a good second half performance," Zeneca said.

Speciality chemicals had a mixed performance with textiles colours continuing to experience tough trading conditions and the effects businesses reporting good performance.

"Due to continued downward pressure on sales prices and increases in raw material costs, specialities' profits are expected to be similar to those in 1994," the company said.

### Tate chief has two contracts

By William Lewis  
and Clay Harris

Sir Neil Shaw, executive chairman of Tate & Lyle, has two employment contracts and receives payments from two pension schemes, company documents show.

Sir Neil, who is up for reelection to the board at tomorrow's annual meeting, has one contract with the sugars and sweeteners group and another with Redpath Industries, a Canadian subsidiary.

He is also in receipt of pension payments from Redpath's executive pension scheme and from a pension scheme established in Jersey by the subsidiary. Contributions are made to the Jersey scheme to fund a deficit identified when his pension payments began in 1992.

The annual report does not state that he has two contracts. However, documents available for inspection ahead of the AGM provide details. His Tate contract says "in the event of potential conflict of interest or priority" between the services he provides under the contracts the UK one takes "precedence".

### Therexsys new financing

By Clive Cookson, Science Editor

Therexsys, the only UK company specialising in gene therapy, is about to start a second round of financing, with a view to floating on the London Stock Exchange next year.

Dr Martin Bruveneris, the chief executive recruited from Glaxo Wellcome, aims to raise between £8m and £10m this spring through a private placement. Nine venture capital funds contributed £5.4m to the first round in 1993.

Clinical trials for Therexsys' first product, a treatment for inoperable tumours, should have started by next year. Two others, for HIV/AIDS and Gaucher's disease - an inherited metabolic

disorder - are expected to follow in 1997.

Gene therapy, the medical use of the genetic chemical DNA, has recently received adverse publicity in the US, where about 50 biotechnology companies specialise in the field. Last month an expert panel for the US government's National Institutes of Health "Expectations of current gene therapy have been over-sold."

Therexsys also announced a strengthening of its management team, including the appointment of Dr Phillip Barr, former director of molecular biology at Chiron in California, as head of research.

It envisages first product launches in 2001-02.

### RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Central Motor	11.7 (11.3)	0.118 (0.085)	0.58 (0.03)	0.75	Apr 10	2.25	0.5	2.75
Colfax & Fowler	6 mths to Oct 31	17.8 (17.8)	0.094 (0.027)	2.2 (1.28)	0.7	0.7	-	1.6
Cooley	6 mths to Sept 30	11.22 (8.94)	10.4 (11.1)	42.9 (46)	12	12	-	32
Dunelm Printing	Yr to Oct 31	105.6 (98.8)	5.18 (3.08)	10.82 (2.8)	8.4	8.4	10.1	6.6
Eveready Brewery	Yr to Sept 30	37.8 (35.5)	3.22 (2.55)	87.5 (86.1)	7.4	7.1	14.8	14.2
Manchester Insurance	Yr to Dec 31	- (-)	2.18 (2.18)	3.4 (3.7)	1.8	Feb 27	1.5	3.2
Shawbrook	Yr to Oct 31	167.6 (170.5)	2.53 (2.53)	7.38 (7.45)	0.87	Apr 18	0.87	1.3
Shaw	Yr to Oct 31	27.8 (28.4)	2.9 (3.51)	13.5 (16.4)	4.5	Apr 6	4.2	6.05
Surrey S	6 mths to Sept 30	26.9 (26.8)	0.288 (0.045)	0.07 (0.02)	-	-	-	0.8
Treasury	Yr to Dec 31	8.95 (2.4)	1.83 (0.383)	0.58 (0.24)	-	-	-	1.7
Widson & Phipps	Yr to Oct 29	497.8 (440.8)	18.5 (10.8)	33.1 (16.1)	11.5	Feb 24	10.8	16.5
Investment Trusts								
Darby	Yr to Dec 31	519 (443)	2.28 (2.08)	19.328 (17.719)	10.7232	Feb 28	10.611	18.328
First Philippine	Yr to Oct 31	97.6 (119.3)	0.113 (0.37)	0.23 (0.74)	0.15	0.15	0.15	17.713
Reading Glasshouse	Yr to Dec 31	81.2 (75.7)	3.07 (2.85)	1.9 (1.83)	1.7	Mar 1	1.92	8.1
Scottish National	3 mths to Dec 31	-	-	-	1.55	Apr 8	1.55	7.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. \*Other exceptional charge. □ Net rental income. \*Comparatives for 15 months. □ Allm stock. SSM stock. \*Comparatives for 3 months. †At September 30.

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### MANUTAN

1994/95 RESULTS

#### A YEAR OF STRONG GROWTH

The Supervisory Board chaired by Mr André P. GUICHARD, at its meeting of 22 January 1996, reviewed the management report and accounts for the year ended 30 September 1995, which were presented by the Management Board chaired by Mr Jean-Pierre GUICHARD.

The turnover of MANUTAN S.A., supported by the strong economic recovery, grew strongly (+ 21 %) to FRF 658 million. All the other Group companies, with the exception of the German group company, had sustained growth; consolidated turnover increases by 15 % on the basis of a group structure identical to the previous year.

The acquisition of the OVERTOOM Group in April 1995 substantially increased the scale of the Group including the accounts of the Dutch company for six months, consolidated turnover of the

MANUTAN Group amounts to FRF 1.39 billion, an increase of 40 %. The net profit attributable to the Group, before amortisation of goodwill, is FRF 100.5 million, an increase of 36 %. After amortisation of goodwill, this profit amounts to FRF 90 million.

The turnover of the newly-constituted group, including twelve months of the OVERTOOM Group, should be close to FRF 1.8 billion for the 1995/96 financial year, while achieving a fully acceptable rate of return.

At the Annual General Meeting of 27 March 1996, it will be proposed to increase the amount distributed by more than 40 % by increasing the dividend per share to FRF 9 inclusive of tax credit. It will also be proposed to double the capital by capitalising reserves and having a bonus issue of shares.

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COMMODITIES AND AGRICULTURE

US set to become net exporter of beef

By Ashlin Molevi in Washington
US beef exports are expected to exceed imports for the first time in 1996 as the US Department of Agriculture gears up for a major international US beef marketing campaign.

beef, veal, and variety meats to foreign markets soared to a record high 890,000 tonnes worth \$3.1bn.

would not lift the ban on US beef, setting the scene for the first major agricultural test of the WTO.

more cash receipts than any other sector of the US agricultural economy, with nearly a quarter of all farm income derived from sales of cattle and calves.

total economic activity associated with the beef industry accounts for about 4 per cent of the US GDP, according to the Cattle and Beef Industry Handbook.

Australia forecast to stretch its lead in wool production

By Nikki Tait in Sydney
Australia's wool production is expected to increase by more than 21 per cent during the next five years, contributing to a forecast 11 per cent rise in global production, according to the International Wool Secretariat.

five years. Since 1989-90, Australian wool production has fallen by nearly 40 per cent, to about 290m kg. This decline has been blamed on the collapse in wool prices, the recent drought on the eastern seaboard and the better returns available from other agricultural products.

the IWS sees Australia wool production slipping slightly, to 437m kg, down from 470m kg in 1994-95. But thereafter, production should stabilise and then rise to 630m kg level by the year 2000.

Mexican coffee growers gloomy about crop damage

Coffee growers and exporters in Chiapas, Mexico's top producing state, estimate that the 1995-96 crop will be down by between 30 and 35 per cent because of adverse weather, reports Reuters from Tapachula.

Concern about the Mexican crop helped coffee futures to gain ground in London and New York yesterday.

economic crisis and plantation invasions, growers said.

exports after June 1996 in a continuing effort to prop up prices had the backing of producers and would most probably be implemented, an Ecuadorian official said yesterday.

Professor Haines said other aims were to improve the handling of fish on boats and at ports so that they arrived undamaged at market, and to promote the benefits of fish to younger consumers.

Dutch zinc smelter's future secured

By Nikki Tait
Pasminco, the Australian zinc producer, said yesterday that it had secured the future of its Badajoz zinc smelter in the Netherlands, after the Dutch authorities agreed to allow it to produce and store jarosite there until July 1996.

processing "clean" concentrates at the Badajoz smelter, supplied by the new Century mine, which CRA is developing in Queensland.

However, after long negotiations between the company and the Dutch authorities and in the wake of last December's decision by CRA to proceed with the Century mine, it was agreed that, with a switch to the low-iron Century concentrates in 1998, the smelter could continue operating.

Single voice proposed for British fishing industry

By Alison Meiland
The UK government said yesterday that the country's fishing industry was hampered by poor internal communication and "a failure to understand others' needs and problems".

drawn up by the Sea Fish Industry Authority, a statutory body, and are expected to be approved by its board today (Wed).

system of catch quotas. Fishermen who had exhausted their quotas before the end of one year should be able to "borrow" quotas from the next year to ensure consistent supplies of fish.

Professor Haines said other aims were to improve the handling of fish on boats and at ports so that they arrived undamaged at market, and to promote the benefits of fish to younger consumers.

Mr Baldry welcomed these plans. "Modern marketing techniques are commonplace in some other member states," he said. "Unless the industry pays greater attention to marketing the EU and we will look closely at any proposals for flexibility between years," it said.

Copper leads base metals rally

Base metals generally ended higher at London Metal Exchange yesterday, following the trend in the COPPER market. But traders believed the gains were due to markets correcting from an oversold condition.

Some analysts and dealers were forecasting a correction as gold tended increasingly towards the overbought, although that was not a major concern for the overall trend.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Copper, Aluminum, Lead, Zinc, Nickel, Tin), price, and change. Includes sub-sections for London Metal Exchange and COMEX.

Precious Metals continued

Table with columns for metal type (Gold, Silver, Platinum, Palladium), price, and change.

ENERGY

Table with columns for energy type (Crude Oil, Heating Oil, Natural Gas), price, and change.

GRAINS AND OIL SEEDS

Table with columns for grain type (Wheat, Maize, Soybean, Barley, Potatoes), price, and change.

SOFTS

Table with columns for soft type (Cocoa, Coffee, Sugar), price, and change.

MEAT AND LIVESTOCK

Table with columns for meat type (Cattle, Hogs, Sheep, Poultry), price, and change.

JOTTER PAD

Table for Jotter Pad with columns for date, time, and notes.

CROSSWORD

Crossword puzzle grid with clues and solutions provided.

PRECIOUS METALS

Table with columns for metal type (Gold, Silver, Platinum, Palladium), price, and change.

NATURAL GAS NYMEX (10,000 cubic feet)

Table with columns for gas type, price, and change.

UNLEADED GASOLINE NYMEX (42,000 US gallons)

Table with columns for gasoline type, price, and change.

FUTURES DATA

Table with columns for contract type, price, and change.

INDICES

Table with columns for index type, price, and change.

VOLUME DATA

Table with columns for volume type, price, and change.



INTERNATIONAL CAPITAL MARKETS

Sentiment in Europe hit by political worries

By Martin Brice in London and Lisa Bransten in New York

The rally in European government bond markets faltered yesterday, with political worries and concern over budget deficits undermining sentiment.

German government bonds opened lower after the sell-off in Treasury securities, but recovered early losses after the future hit a trend-line support level at 100.60.

Mr Karl Haeling, head of futures and options at Deutsche Morgan Grenfell in Frankfurt, said: "Overall sentiment in the long-term is bullish."

Traders believe there may be a 7 to 10 basis point cut in the repo rate today.

On Life, the March 10-year bund future closed at 100.88, up 0.02. The yield spread of 10-year bunds over Treasuries moved from 18 basis points to 12 points.

UK government bonds opened lower after a weak overnight performance from US Treasuries, and finished the day slightly down after a recovery in hands helped lift them up of their low points.

There was little reaction to economic data or to the announcement of the next auction stock.

On Life, the March long gilt future closed at 111.24, down 1/8. The 10-year yield spread over Germany moved from 162 basis points to 163 points.

The CBI trends survey showed few signs of improvement in business conditions and Mr Simon Briscoe, economist at Nikko, said: "This survey is weaker than expected, supporting the last rate cut."

The Treasury said the stock in the next auction on January 31 would be £3bn of B per cent

gilt, due 2000 and stripable. There had been talk of an issue of the 7 per cent due 2001, and Mr Nigel Richardson, head of bond research at Yamaichi, said: "Clearly they are keen to pursue issuance of a bond which is stripable."

Italian government bonds experienced a volatile day, with the March future on Life opening at 111.20, and falling to 110.73 before closing at a high of 112.15, up 0.30 on the previous close.

Nervousness about the political situation was replaced with confidence after Mr Silvio Berlusconi, the centre-right politician, said he thought agreement could be reached on the formation of a government.

GOVERNMENT BONDS

The 10-year yield spread over Germany moved from 442 to 445 basis points.

Swedish government bond prices fell yesterday as investors continued to react to comments by Mr Goran Persson, finance minister, that appeared to threaten fiscal discipline.

The yield on the 10-year bonds rose nearly 40 basis points but fell back and closed down only 28 basis points on Friday's levels. Mr Persson yesterday reiterated that his plan to raise levels of sickness and unemployment benefits would be financed within the social insurance system.

Mr Graham McDewitt, senior bond strategist at Paribas Capital Markets, said Swedish bonds had enjoyed a rally during the past nine months, with the 10-year yield spread over Germany tightening from about 450 basis points last April to 215 points last week.

Mr David Brown, chief European economist at Bear Stearns International, said: "The Swedish government can

afford to 'play chicken' with the market on the austerity programme. The market has now put a well-timed shot across Persson's bows, with the message to keep bartering down the fiscal hatches."

The yield spread over Germany on Sweden 10-year bonds spreads moved from 239 basis points to 236 points.

French government bonds ended lower in line with other European markets. On Matif the March 10-year future settled at 122.76, down 0.04, while March 12Bt fell 0.03 to 95.37.

US Treasury prices fell in thin trading early yesterday as traders prepared for new supply in the afternoon and watched political developments in Washington.

Near midday, the long bond was 3/8 lower at 110 1/2, yielding 6.067 per cent, while at the short end of the maturity spectrum the two-year note was unchanged at 100 1/4, yielding 5.077 per cent.

In the early afternoon the Treasury Department was due to announce the results of an auction of \$12.25bn in two-year notes. Bonds often fall in advance of an auction as dealers attempt to push yields higher to make bonds more attractive to retail buyers.

Today the Treasury is to sell \$12bn in five-year notes. Worries that the US could default on its debt also weighed on the market yesterday.

Mr Robert Rubin, the Treasury Secretary, sent a letter to the Speaker of the House, Mr Newt Gingrich, saying the Treasury would not be able to meet its obligations after March 1 unless Congress raised the federal borrowing limit.

Since November, Mr Rubin has paid off US debts while remaining under the technical borrowing limits by using funds from several government trust funds.

Refco pays \$925,000 fine to the CFTC

By Laurie Morse in Chicago

Refco, the Chicago-based brokerage firm with a worldwide presence in the commodity and financial futures markets, has agreed to pay nearly \$1m to settle an administrative

complaint brought by the Commodity Futures Trading Commission, the chief derivatives regulator in the US.

The CFTC had accused Refco of violating rules requiring segregation of customer funds in the firm's dealings with five German accounts beginning in 1989 and continuing through 1992.

The agency also found that Refco had not adequately supervised its employees and had violated previous cease and desist orders against the firm.

Refco, which noted a civil suit on the same matter had been dismissed last year without any award of damages, said in a statement that no investor was ever damaged by Refco's actions as a broker for the German accounts, and that the firm simply executed and cleared transactions for these customers according to client instructions.

The firm agreed to the settlement because "it wanted to avoid protracted litigation with its primary regulator", a statement issued by Refco's attorney's said.

It said it had already implemented the internal controls and special reporting required by the CFTC's administrative order, and agreed to pay a fine of \$925,000. The fine is among the largest ever imposed by the CFTC for an account segregation violation.

In December 1994, Refco agreed to pay \$1.25m to settle a different complaint brought by the CFTC regarding to the firm's futures brokerage operations.

South Africa returns to sterling

By Connor Middelmann

Continuing its strategy of expanding its investor base and setting benchmark issues in various currencies, the Republic of South Africa made its long-awaited return to the sterling bond market yesterday with a successful \$100m offering of 10-year bonds - the country's first sterling issue since the early 1990s.

The bonds, which yielded 190 basis points above bids at the re-offer price, were placed predominantly with investors in the UK, both institutional and retail, joint leads J.P. Morgan and SBC Warburg said.

South African-qualified institutional buyers were, for the first time, allowed to buy into a South African foreign-currency bond following the partial removal of capital controls last week.

The issue was well oversubscribed and the yield spread narrowed to 186 basis points over bids after the bonds were freed to trade.

After issuing a five-year US dollar global bond in 1994 and five-year domestic yen bonds in 1995, "we are very happy that we now have a 10-year deal in place", said Ms Maria Ramos, deputy director-general at the South African finance ministry.

Moreover, she said, "we were very pleased that we were able to do it at a spread below 200 basis points and - although that's comparing apples with pears - below the 193 basis point spread of our dollar global", she said.

South Africa chose the sterling sector because it "offered the best opportunity to get a 10-year maturity at a reasonable price" and because South Africa had no sterling in its debt portfolio, Ms Ramos said.

Funding plans for the fiscal year 1996-97, which begins in April, are not yet clear, but with DM400m of bonds maturing in October, the country is expected to access that market in the course of this year.

Elsewhere, DePfa, Germany's

largest public-sector lender, surprised D-Mark players with plans to issue the first-ever global Pfandbrief.

The huge market for Pfandbriefe - bonds collateralised by public-sector or mortgage loans - has traditionally been domestically based, but issuers have recently been keen to attract greater international participation.

DePfa hopes to place between 60 and 70 per cent of the issue outside Germany, including about 30 per cent in Asia and 10 to 20 per cent in the US. DePfa's public-sector Pfandbriefe are rated triple-A by Moody's and IBCA.

Elsewhere, the market saw a slew of US dollar-denominated floating-rate notes. Like previous FRN issues in recent weeks, the deals were aggressively priced, largely as a result of tight spreads in the secondary market. However, their lead managers reported solid demand from money-market funds and financial institutions.

Bankers Trust, which is on Standard & Poor's CreditWatch list for a possible downgrade, issued \$300m of five-year floating-rate notes at an all-in cost of 26 basis points over Libor via PaineWebber.

Italy's Banca Nazionale del Lavoro issued \$315m of seven-

year FRNs at an all-in cost of 33 basis points over Libor, supported by some lead orders, said lead CS First Boston.

The National Bank of Canada meanwhile sold \$200m of five-year floaters at an all-in cost of 15.5 basis points over Libor via Goldman Sachs.

Two deals also surfaced in the revolving French franc sector: the Kingdom of Sweden issued FF3bn of eight-year bonds and Spanish bank Argenta issued FF2.5bn of 10-year paper.

Puma, Australia's largest private sector issuer of mortgage-backed bonds, is planning its first eurobond issue in the second or third quarter of the year. Led by J.P. Morgan, the issue is expected to total up to \$500m and will be split into two triple-A rate senior tranches and one subordinated tranche.

"Raising offshore funds will provide Puma with a diversified funding base, allowing us to expand our activities in the secondary mortgage market, spreading funding risk and reducing funding costs," said Mr Tony Gill, Puma managing director.

Italy's Banca Nazionale del Lavoro issued \$315m of seven-

NEW INTERNATIONAL BOND ISSUES

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Face, Spread, Book number. Lists various international bond issues from US, Sterling, and other currencies.

WORLD BOND PRICES

Table with columns: Country, Coupon, Bid, Price, Day's change, Yield, Week ago, Month ago. Lists bond prices for Australia, Austria, Belgium, Canada, Denmark, Germany, France, Greece, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK, US Treasury, and EU (French Govt).

BUND FUTURES OPTIONS (LIFE) DM250,000 points of 100%

Table with columns: Strike, Price, Call, Put, Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec. Lists futures options data for Bunds.

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFE) US\$200m 100% of 100%

Table with columns: Strike, Price, Call, Put, Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec. Lists futures options data for Italian Govt Bonds.

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFE) US\$200m 100% of 100%

Table with columns: Strike, Price, Call, Put, Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec. Lists futures options data for Italian Govt Bonds.

NOTIONAL SPANISH BOND FUTURES (MEFF)

Table with columns: Open, Settle, Price, Change, High, Low, Est. vol, Open int. Lists futures data for Spanish Bonds.

NOTIONAL UK GILT FUTURES (LIFE) £50,000 2% of 100%

Table with columns: Strike, Price, Call, Put, Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec. Lists futures options data for UK Gilts.

LONG TERM GILT FUTURES OPTIONS (LIFE) £50,000 2% of 100%

Table with columns: Strike, Price, Call, Put, Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec. Lists futures options data for UK Gilts.

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFE) ¥100m 100% of 100%

Table with columns: Open, Settle, Price, Change, High, Low, Est. vol, Open int. Lists futures data for Japanese Govt Bonds.

US INTEREST RATES

Table with columns: Rate, One month, Three month, Six month, One year, Two year, Three year, Five year, Ten year, Thirty year. Lists US interest rates.

BOND FUTURES AND OPTIONS

Table with columns: France, Notional French Bond Futures (MATIF) FF500,000. Lists bond futures and options data for France.

Germany, Notional German Bond Futures (LIFE) DM250,000 100% of 100%

Table with columns: Open, Settle, Price, Change, High, Low, Est. vol, Open int. Lists futures data for German Bonds.

UK Gilts Prices

Table with columns: Name, Bid, Offer, Price, Change, High, Low, Est. vol, Open int. Lists UK Gilts prices.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Price Index, Jan 23, Jan 22, Day's % change, Mon, Accrued, xtd adj, xtd ytd. Lists fixed interest indices.

FT FIXED INTEREST INDICES

Table with columns: Bond, Jan 23, Jan 22, Jan 18, Jan 16, Jan 17, Jan 14, Jan 13, Jan 12, Jan 11, Jan 10, Jan 9, Jan 8, Jan 7, Jan 6, Jan 5, Jan 4, Jan 3, Jan 2, Jan 1. Lists fixed interest indices.

FT/ISMA INTERNATIONAL BOND SERVICE

Table with columns: Issued, Bid, Offer, Chg. Lists international bond service data.

GILT EDGED ACTIVITY INDICES

Table with columns: Bond, Jan 23, Jan 22, Jan 18, Jan 16, Jan 17, Jan 14, Jan 13, Jan 12, Jan 11, Jan 10, Jan 9, Jan 8, Jan 7, Jan 6, Jan 5, Jan 4, Jan 3, Jan 2, Jan 1. Lists gilt edged activity indices.

FT/ISMA INTERNATIONAL BOND SERVICE

Table with columns: Issued, Bid, Offer, Chg. Lists international bond service data.

CONVERTIBLE BONDS

Table with columns: Bond, Bid, Offer, Price, Change, High, Low, Est. vol, Open int. Lists convertible bonds data.

BASE LENDING

Table with columns: Bond, Bid, Offer, Price, Change, High, Low, Est. vol, Open int. Lists base lending data.

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CURRENCIES AND MONEY

MARKETS REPORT

Dollar revives on talk of lower German rates

By Graham Bowley

The dollar and high-yielding European currencies recovered on the foreign exchanges yesterday on the back of the renewed belief that German interest rates are set to remain low.

Suspicious that German economic growth was not as weak as had been suspected and that expectations of lower interest rates were overdone prompted a sell-off in the dollar and high-yielding currencies in favour of the D-Mark on Monday.

But the D-Mark's rise yesterday appeared to have been only temporary. The German currency rallied strongly early in the session, supported by worries over European monetary union, before retreating in later trading to finish lower against the dollar, the yen and other European units.

The D-Mark's demise allowed the Italian lira, the Swedish krona and the Spanish peseta, which had been among those

hardest hit on Monday, to regain some of their lost ground. Sterling also had a good day, rising against the D-Mark but lagging behind the dollar's rally.

The dollar finished against the D-Mark at DM1.4773, from DM1.4755. It also closed higher against the yen at Y106.83 from Y106.7550 at the previous close.

The pound finished at DM2.2353 from DM2.2353. Against the dollar, it finished at \$1.514 from \$1.5149.

Sterling's trade-weighted exchange rate index closed at 83.0 from 82.9 at the previous close.

The lira closed at L1,080 against the D-Mark, from L1,077. The French franc finished slightly weaker against the D-Mark.

The case for lower interest rates was supported by data showing low German inflation and weak activity. Figures showed that producer price inflation remained low at the

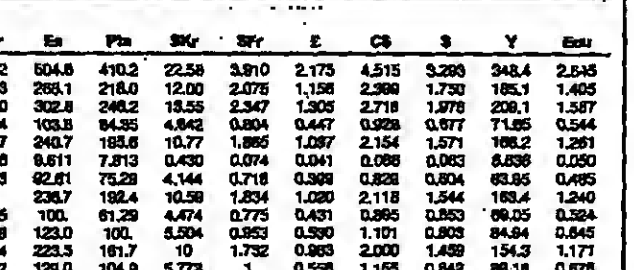
D-Mark, at FF3.426, from FF3.418.

The recovery of the dollar and other European currencies after Monday's slide demonstrated that the recent trend away from the D-Mark into high-yielding currencies was still intact, analysts said.

Mr Avinash Persaud, currency strategist at JP Morgan in London, said that Monday's decline had been due to profit-taking.

He said: "What we have seen over the last two sessions has all the hallmarks of profit-taking and little in the way of a serious trend away from the high-yielders. The market is now returning to the view that German interest rates are going to remain low for a long period of time."

Against the D-Mark (Sfr per DM)



This view was supported by comments by Mr Reimut Jochimsen, a member of the Bundesbank council. His suggestion that there might be scope for a further decline in official interest rates, although this depended on developments in M3 money supply, helped support the dollar.

The US currency's recovery was further underpinned by signs of stronger US economic growth. Data showing a large rise in personal spending and in weekly retail sales showed that the economy was in "reasonable shape which is dollar supportive," according to Mr Hannah.

Worries that the stand-off between the Whitehouse and Republican leaders over the US budget might force the US to default on its debt obligations caused a sell-off in the US Treasury market but this was largely shrugged off by the US currency.

WORLD INTEREST RATES

Table of Money Rates showing interest rates for various countries including Belgium, France, Germany, Italy, Netherlands, Spain, and the US. Columns include currency, rate, and date.

Table of LIBOR FT London rates for various currencies including the Dollar, Euro, and Sterling. Columns include currency, rate, and date.

Table of Other Currencies showing interest rates for countries like Argentina, Brazil, Canada, and Mexico. Columns include currency, rate, and date.

Table of Euro Currency Interest Rates for various European currencies including the British Pound, French Franc, and Italian Lira. Columns include currency, rate, and date.

Table of Three Month Euro Area Futures (MATIF) showing prices and changes for various currencies. Columns include currency, price, change, and date.

Table of Three Month Euro Area Futures (LIFFE) showing prices and changes for various currencies. Columns include currency, price, change, and date.

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POUND SPOT FORWARD AGAINST THE POUND

Table showing Pound Spot Forward rates against the Pound for various currencies including Australia, Belgium, Denmark, and the US. Columns include currency, rate, and date.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table showing Dollar Spot Forward rates against the Dollar for various currencies including Australia, Belgium, Denmark, and the US. Columns include currency, rate, and date.

GROSS RATES AND DERIVATIVES

Table of Exchange Cross Rates showing rates for various currencies including the British Pound, French Franc, and Italian Lira. Columns include currency, rate, and date.

UK MONEY RATES

Table of UK Money Rates showing interest rates for various currencies including the British Pound, French Franc, and Italian Lira. Columns include currency, rate, and date.

EMS EUROPEAN CURRENCY UNIT RATES

Table of EMS European Currency Unit Rates showing rates for various currencies including the British Pound, French Franc, and Italian Lira. Columns include currency, rate, and date.

BASE LENDING RATES

Table of Base Lending Rates showing rates for various currencies including the British Pound, French Franc, and Italian Lira. Columns include currency, rate, and date.

UK LONDON MONEY RATES

Table of UK London Money Rates showing interest rates for various currencies including the British Pound, French Franc, and Italian Lira. Columns include currency, rate, and date.

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

Table of Three Month Sterling Futures (LIFFE) showing prices and changes for various currencies. Columns include currency, price, change, and date.

THREE MONTH EURO AREA FUTURES (LIFFE) £1m points of 100%

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Advertisement for APPOINTMENTS ADVERTISING, featuring text about advertising in the UK edition and contact information for Toby Finden-Crofts.

Advertisement for LEGAL NOTICES, featuring text about legal services and contact information for Datto Securities Europe Limited.

Advertisement for Gold on the Move, featuring text about gold trading and contact information for Berkeley Futures Limited.

Advertisement for Market-Eye, featuring text about market analysis and contact information for Market-Eye.

Advertisement for WANT TO KNOW A SECRET, featuring text about a seminar and contact information for the J.D.S. Group.

Advertisement for 24HR FOREX, featuring text about 24-hour foreign exchange trading and contact information for 24HR FOREX.

Advertisement for TREND ANALYSIS LTD, featuring text about trend analysis and contact information for Trend Analysis Ltd.

Advertisement for SOVEREIGN (FOREX) LIMITED, featuring text about foreign exchange trading and contact information for Sovereign (Forex) Limited.



LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, price, and change.

CHEMICALS

Table listing companies in the Chemicals sector with columns for company name, price, and change.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table listing companies in the Electronic & Electrical Equipment sector (continued).

EXTRACTIVE INDUSTRIES - Cont.

Table listing companies in the Extractive Industries sector (continued).

HOUSEHOLD GOODS - Cont.

Table listing companies in the Household Goods sector (continued).

INVESTMENT TRUSTS - Cont.

Table listing investment trusts (continued).

BANKS, MERCHANT

Table listing banks and merchant companies.

BANKS, RETAIL

Table listing retail banks.

BREWERIES, PUBS & REST

Table listing breweries, pubs, and restaurants.

BUILDING & CONSTRUCTION

Table listing companies in the building and construction sector.

BUILDING MATS. & MERCHANTS

Table listing building materials and merchants.

DISTRIBUTORS

Table listing distributor companies.

DIVERSIFIED INDUSTRIALS

Table listing diversified industrial companies.

ELECTRICITY

Table listing electricity companies.

ELECTRONIC & ELECTRICAL EQPT

Table listing electronic and electrical equipment companies.

ENGINEERING, VEHICLES

Table listing engineering and vehicle companies.

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OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

SHARES & HOTELS



IV TRUSTS SPLIT CAPITAL - Cont.

Table listing various IV trusts with columns for Name, Price, and % Change.

LEISURE & HOTELS - Cont.

Table listing Leisure & Hotels companies with columns for Name, Price, and % Change.

OTHER FINANCIAL - Cont.

Table listing Other Financial companies with columns for Name, Price, and % Change.

PROPERTY - Cont.

Table listing Property companies with columns for Name, Price, and % Change.

SUPPORT SERVICES - Cont.

Table listing Support Services companies with columns for Name, Price, and % Change.

AIM - Cont.

Table listing AIM companies with columns for Name, Price, and % Change.

LIFE ASSURANCE

Table listing Life Assurance companies with columns for Name, Price, and % Change.

PAPER, PACKAGING & PRINTING

Table listing Paper, Packaging & Printing companies with columns for Name, Price, and % Change.

MEDIA

Table listing Media companies with columns for Name, Price, and % Change.

RETAILERS, FOOD

Table listing Retailers, Food companies with columns for Name, Price, and % Change.

TELECOMMUNICATIONS

Table listing Telecommunications companies with columns for Name, Price, and % Change.

RETAILERS, GENERAL

Table listing Retailers, General companies with columns for Name, Price, and % Change.

TEXTILES & APPAREL

Table listing Textiles & Apparel companies with columns for Name, Price, and % Change.

PHARMACEUTICALS

Table listing Pharmaceutical companies with columns for Name, Price, and % Change.

AMERICANS

Table listing American companies with columns for Name, Price, and % Change.

CANADIANS

Table listing Canadian companies with columns for Name, Price, and % Change.

SOUTH AFRICANS

Table listing South African companies with columns for Name, Price, and % Change.

OTHER INVESTMENT TRUSTS

Table listing Other Investment Trusts with columns for Name, Price, and % Change.

INVESTMENT COMPANIES

Table listing Investment Companies with columns for Name, Price, and % Change.

OIL EXPLORATION & PRODUCTION

Table listing Oil Exploration & Production companies with columns for Name, Price, and % Change.

OIL, INTEGRATED

Table listing Oil, Integrated companies with columns for Name, Price, and % Change.

OTHER FINANCIAL

Table listing Other Financial companies with columns for Name, Price, and % Change.

LEISURE & HOTELS

Table listing Leisure & Hotels companies with columns for Name, Price, and % Change.

PROPERTY

Table listing Property companies with columns for Name, Price, and % Change.

RETAILERS, GENERAL - Cont.

Table listing Retailers, General companies with columns for Name, Price, and % Change.

TOBACCO

Table listing Tobacco companies with columns for Name, Price, and % Change.

TRANSPORT

Table listing Transport companies with columns for Name, Price, and % Change.

WATER

Table listing Water companies with columns for Name, Price, and % Change.

AIM

Table listing AIM companies with columns for Name, Price, and % Change.

BVLGARI advertisement featuring a watch and the text: SPORT WATCH IN STAINLESS STEEL, AUTOMATIC MOVEMENT, WATER RESISTANT, SWISS MADE. 172 NEW BOND STREET, LONDON W1, (0171) 672 9969

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Direct, a member of the Financial Times Group. Company quotations are based on those used for the FT-SE Actuaries Share Index. Cheapest bid prices are shown in bold unless otherwise stated. Highs and lows are based on 100-day bid-ask prices over a rolling 90-week period. Where shares are denominated in currencies other than sterling, this is indicated after the name. Synthetic options in shaded areas appear in the column only as a guide to price and P/E ratio. Dividends and dividend covers are published on Monday. Market capitalization shown is calculated separately for each list of stock prices. Earnings used in calculations are based on 1995 financial statements. Information is based on latest annual reports and accounts and, where possible, is updated on interim figures. Yields are based on bid-ask prices and are adjusted for a dividend tax credit of 10 per cent and allow for value of fractions (rounded up and down). Excluded the Annual Values (AV) are shown for Investment Trusts, in prices per share, along with the percentage change (up or down) since the last year. The FT Direct share price is the FT Direct share price. Changes of price, dividend cover and dividend cover are indicated in shaded areas.

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FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermuda (SIB Recognised) funds with columns for Fund Name, ISIN, and Price.

BERMUDA (REGULATED)\*\*

Table listing Bermuda (Regulated) funds with columns for Fund Name, ISIN, and Price.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey (SIB Recognised) funds with columns for Fund Name, ISIN, and Price.

IRELAND (SIB RECOGNISED)

Table listing Ireland (SIB Recognised) funds with columns for Fund Name, ISIN, and Price.

ROYAL BANK OF CANADA QFS FUND LTD

Table listing Royal Bank of Canada QFS Fund Ltd funds with columns for Fund Name, ISIN, and Price.

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GAUL FUND MANAGEMENT LTD

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DAVING INVESTMENT (OVERSEAS) LTD

Table listing Daving Investment (Overseas) Ltd funds with columns for Fund Name, ISIN, and Price.

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ISLE OF MAN (SIB RECOGNISED)

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JERSEY (SIB RECOGNISED)

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Table listing Jersey (SIB Recognised) funds with columns for Fund Name, ISIN, and Price.

JERSEY (REGULATED)\*\*

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FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4878 for more details.

Main table containing financial data for various fund categories including Offshore Insurances, Other Offshore Funds, and various international and domestic funds. Columns include fund names, prices, and other financial metrics.

OFFSHORE INSURANCES

مركزنا من الاصل



LONDON STOCK EXCHANGE

MARKET REPORT

Renewed weakness in gilts restrains equities

By Steve Thompson, UK Stock Market Editor

Worries about international bond markets continued to depress European equities and were mostly responsible for a disappointing performance from UK shares yesterday.

For the hotels to restaurants group. Dealers keen to see more bids emerging, had been hoping for a Granada success, which they said could pave the way for a spate of contested takeover battles.

Overnight losses of more than a point in US Treasury bonds, and opening falls in German bonds, increased the downward pressure on UK gilts, which declined by almost a half-point during early trading.

Wall Street's overnight surge to yet another record, preferring to wait for direction of gilts and more news from the Forté bid.

Dealers were quick to pinpoint the next potential bid targets, alighting on Guardian Royal Exchange, the composite insurer long viewed as prey for an overseas insurance group.

Granada win lifts Forté

Mid-afternoon news that Granada Group had won its bitterly contested takeover battle for Forté triggered a spate of buying in the defeated hotels group.

quiet in the short term. Pubs groups active. Brewing and leisure giant Whitbread, which was said to still be interested in buying Forté's roadside businesses, recovered from an early fall to close just 4 off at 684p.

Exchange rose 6 1/2 to 271 1/2 and the M4 news causing ripples of unease, however, the FT-SE 100 posted a near 15-point fall ahead of Wall Street's opening and the Forté bid result.

Also, ABN Amro Hoare Govett crystallised its recent sell stance on the stock in a note that landed on fund managers' desks this morning.

by Cable and Wireless, and although the initial launch is limited to long distance business yesterday to focus on longer term competitive pressures.

Forté shares were firm in early trading after Mercury Asset Management (MAM), the biggest stakeholder in both groups, pledged most of its holding in Forté to Granada, thus ensuring victory for the home entertainment group.

A shortage of replacing Forté in the premier FT-SE 100 index boosted Greenalls, which put on 7 at 604p. Credit Lyonnais Laing continues to favour the stock and Mr Peter Lucas at the broker believes: "It should be on the same earnings rating as Whitbread and it has a little way to go."

Midlands Electricity moved forward another 10 to 388p in spite of a company denial shortly before the close of trading that it was in talks with a rival, Tractebel, of Belgium, has been the name consistently linked with Midlands.

British Biotech, the pharmaceuticals company which has shot ahead on hopes for its cancer treatment, climbed a further 25 to 197p. It is now nudging the £200 a share target set by Lehman Brothers towards the end of last year.

GNK rose 6 to 806p following switch advice from a leading broker which was said to be urging clients to buy GNK at the expense of Lucas Industries, off 5 at 197p.

Dealers were surprised that MAM had taken the decision on its Forté shares, securing victory for Granada, and one said: "It shows you what a good fight Forté put up."

As the dust on the Forté/Granada tussle settled, market-makers were identifying the next "hot" bid favourite. It will be some time before asset allocation decisions are

made by big investment funds. But by the time they do, it will be too late for speculative investors to turn a quick profit.

Oil shares drifted lower as brokers continued to voice caution on the sector and Shell's US arm reported lower than forecast fourth-quarter results.

AB Ports, which has trailed the market as a whole by 17 per cent over the past three months, put on 2 at 274p following a move from sell to hold by UBS.

FINANCIAL TIMES EQUITY INDICES

Table with columns: Index Name, Jan 23, Jan 22, Jan 19, Jan 18, Jan 17, Yr ago, High, Low. Includes FT-SE 100, FT-SE Mid 250, FT-SE All-Share, etc.

London market data

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Hourly movements

Table with columns: Index Name, 9.00, 10.00, 11.00, 12.00, 13.00, 14.00, 15.00, 16.00, 16.10, High/Low, Yesterday, Today. Includes FT-SE 100, FT-SE Mid 250, FT-SE All-Share, etc.

FT-SE Actuaries Share Indices

Table with columns: Index Name, Jan 23, Jan 22, Jan 19, Jan 18, Jan 17, Yr ago, High, Low. Includes FT-SE 100, FT-SE Mid 250, FT-SE All-Share, etc.

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FT-SE Actuaries All-Share

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Hourly movements



WORLD STOCK MARKETS

EUROPE

**AUSTRIA (Jan 23 / Sch)**

Stock	High	Low	Open	Close
ATX	118.10	117.80	117.90	118.00
Alpine	118.10	117.80	117.90	118.00
Bank Austria	118.10	117.80	117.90	118.00
Energy	118.10	117.80	117.90	118.00
Industries	118.10	117.80	117.90	118.00
Insurance	118.10	117.80	117.90	118.00
Media	118.10	117.80	117.90	118.00
Telecom	118.10	117.80	117.90	118.00
Utilities	118.10	117.80	117.90	118.00

**GERMANY (Jan 23 / Dm)**

Stock	High	Low	Open	Close
DAX	1950.00	1940.00	1945.00	1948.00
Adidas	1950.00	1940.00	1945.00	1948.00
Alcatel	1950.00	1940.00	1945.00	1948.00
BMW	1950.00	1940.00	1945.00	1948.00
Deutsche Bank	1950.00	1940.00	1945.00	1948.00
Deutsche Telekom	1950.00	1940.00	1945.00	1948.00
Mercedes-Benz	1950.00	1940.00	1945.00	1948.00
Siemens	1950.00	1940.00	1945.00	1948.00
Volkswagen	1950.00	1940.00	1945.00	1948.00

**FRANCE (Jan 23 / Fr)**

Stock	High	Low	Open	Close
CAC 40	3450.00	3440.00	3445.00	3448.00
Alcatel	3450.00	3440.00	3445.00	3448.00
BNP Paribas	3450.00	3440.00	3445.00	3448.00
Elf	3450.00	3440.00	3445.00	3448.00
Industrie de France	3450.00	3440.00	3445.00	3448.00
Lyonnaise des Eaux	3450.00	3440.00	3445.00	3448.00
Orange	3450.00	3440.00	3445.00	3448.00
Renault	3450.00	3440.00	3445.00	3448.00
Suez	3450.00	3440.00	3445.00	3448.00

**ITALY (Jan 23 / Lit)**

Stock	High	Low	Open	Close
FTSE MIB	10500.00	10450.00	10480.00	10490.00
Alitalia	10500.00	10450.00	10480.00	10490.00
Eni	10500.00	10450.00	10480.00	10490.00
Indesit	10500.00	10450.00	10480.00	10490.00
Intesa	10500.00	10450.00	10480.00	10490.00
Mediocredito	10500.00	10450.00	10480.00	10490.00
Telecom	10500.00	10450.00	10480.00	10490.00
Unicredit	10500.00	10450.00	10480.00	10490.00

**NETHERLANDS (Jan 23 / Fl)**

Stock	High	Low	Open	Close
AEX	350.00	348.00	349.00	349.50
ABN-AMRO	350.00	348.00	349.00	349.50
ASML	350.00	348.00	349.00	349.50
De Nederlandsche Bank	350.00	348.00	349.00	349.50
Philips	350.00	348.00	349.00	349.50
Shell	350.00	348.00	349.00	349.50
Unilever	350.00	348.00	349.00	349.50

**SPAIN (Jan 23 / Ptas)**

Stock	High	Low	Open	Close
IBEX 35	10500.00	10450.00	10480.00	10490.00
Industria de Turisimo	10500.00	10450.00	10480.00	10490.00
Industria de Turismo	10500.00	10450.00	10480.00	10490.00
Industria de Turismo	10500.00	10450.00	10480.00	10490.00
Industria de Turismo	10500.00	10450.00	10480.00	10490.00

**UNITED KINGDOM (Jan 23 / Ster)**

Stock	High	Low	Open	Close
FTSE 100	4500.00	4480.00	4490.00	4495.00
Adidas	4500.00	4480.00	4490.00	4495.00
Alcatel	4500.00	4480.00	4490.00	4495.00
BMW	4500.00	4480.00	4490.00	4495.00
Deutsche Bank	4500.00	4480.00	4490.00	4495.00
Deutsche Telekom	4500.00	4480.00	4490.00	4495.00
Mercedes-Benz	4500.00	4480.00	4490.00	4495.00
Siemens	4500.00	4480.00	4490.00	4495.00
Volkswagen	4500.00	4480.00	4490.00	4495.00

**FINLAND (Jan 23 / Mark)**

Stock	High	Low	Open	Close
HEX	150.00	148.00	149.00	149.50
Alkerm	150.00	148.00	149.00	149.50
Alkerm	150.00	148.00	149.00	149.50
Alkerm	150.00	148.00	149.00	149.50
Alkerm	150.00	148.00	149.00	149.50

**SCANDINAVIAN (Jan 23 / Kron)**

Stock	High	Low	Open	Close
OMX	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50

**SWEDEN (Jan 23 / Kron)**

Stock	High	Low	Open	Close
OMX	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50
Alkerm	100.00	98.00	99.00	99.50

**NETHERLANDS (Jan 23 / Fl)**

Stock	High	Low	Open	Close
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4 p.m. close January 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table containing stock prices for various companies, organized into columns with headers like 'High', 'Low', 'Open', 'Close', 'Change', and 'Volume'. Includes sub-sections for 'D', 'L', 'P', 'M', 'J', 'K', 'G', 'R', 'S'.

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Continued on next page



4 pm close January 23

NYSE COMPOSITE PRICES

NASDAQ NATIONAL MARKET

4 pm close January 23

Table of NYSE Composite Prices. Columns include Stock, Price, Change, and Volume. Includes sub-sections for 'Continued from previous page', 'U', 'X', 'Y', and 'Z'.

Table of NASDAQ National Market. Columns include Stock, Price, Change, and Volume. Includes sub-sections for 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', and 'Z'.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices. Columns include Stock, Price, Change, and Volume. Includes sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', and 'Z'.

Advertisement for 'Financial Times' with the headline 'Have your FT hand delivered in Finland'. Text describes hand delivery services available for all subscribers in Helsinki and Espoo.

Continuation of NASDAQ National Market table from the previous page, listing various stocks and their prices.

Vertical text on the right margin: 'as the arty holiday to nov, the rich ses- ro-ain of and also by jury Rus- limit yant yart fra- ir- today do is anti- plen- h ed nce per rid- ed a old s fit of on r- logott body amon) year's ough on TV, week r and 3.5bn, Zaccas d do start e m, a es and which ation oso w Delhi ma vers of had he y- ron- tuesday as will on poll to 1955 Eudapest'.



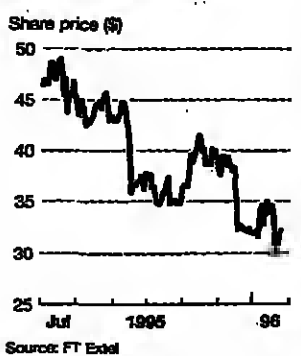
AMERICA

US equities retreat as cyclical fall

Wall Street

US share prices reversed the gains that were made late on Monday and were mostly lower in mid-session trading yesterday, writes Lisa Branson in New York.

Apple Computer



The Morgan Stanley index of cyclical issues was 0.4 per cent lower, while the counterpart index of consumer shares was unchanged.

Mexico tracks US

Mexico City gave back an early rise in reaction to the fall on Wall Street. By mid-session the IPC index was down 13.64 on balance at 3,078.9.

Gold shares attract attention

The gold shares sector ended a busy day with fresh gains as a strong bullion price supported buying activity.

FT/SP ACTUARIES WORLD INDICES

Table with columns for National and Regional Indices, Monday January 22 1996, and Friday January 19 1996. Includes sub-sections for National and Regional Indices and Dollar Index.

EUROPE

Nedlloyd weakens on container price war fears

Another difficult day in AMSTERDAM saw a sharp loss in Nedlloyd, down 9 per cent at the opening on reports of a possible price war in container shipping in the Far East.

However, there was some bargain hunting during the day and the transport group recovered to Ft 31.70, off 6.8 per cent or Ft 2.30.

The AXE index slipped 3.63 or 0.7 per cent to 504.80, partly on weakness in bonds, but also because of a sharp fall in the heavily weighted Royal Dutch, which gave up Ft 3.20 to Ft 2.22.

ASIA PACIFIC

Manila at 5-month high as Nikkei continues descent

Tokyo

Afternoon selling of high-technology stocks brought the Nikkei average back towards the 20,000 level, writes Our Markets Staff.

Uncertainty over the prospect of parliamentary reaction to the government's plan to finish a wind up housing loan company, also figured. Futures fell, and the 225-share Nikkei index closed 115.61 down at 20,060.92.

Institutional selling of high-tech shares, accelerated by stop-loss selling by dealers, followed a series of downgradings by Nomura Research, concerned that dynamic random-access memory (DRAM) chip prices could fall.

Nikon was the biggest loser on the first session, down Y82 at Y1,310. Toshiba fell Y22 to Y810, Fujitsu Y40 to Y1,110, Oki Y45 to Y865, Sanyo Y22 to Y605 and NEC Y60 to Y1,250.

Banks finished lower after trading higher for most of the day. Bank of Tokyo and Mitsubishi Bank both lost Y30 to Y1,690 and Y2,280 respectively, although Fuji Bank was flat at Y2,240.

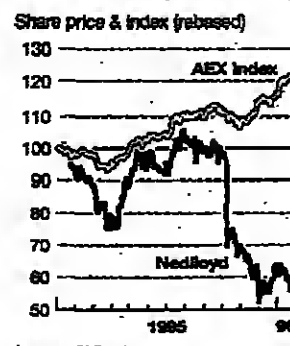
Makers of television antennae and tuners climbed on talk of good business prospects for digital satellite broadcasting starts in Japan this spring. Yagi Antenna moved forward Y200 to Y1,510, Yokowo Y70 to Y1,140 and Uuden Y40 to Y2,010.

Nippon Steel Semiconductor sagged Y270,000 to Y2,560,000 after Nomura's downgrading of chip-related companies, and Kyocera by Y130 to Y7,570 after the broker cut its 1996/97 operating profit forecast from Y1,420m to Y1,370m.

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Nedlloyd



A low of DM73.05, down 2 per cent from last Friday's this close, before it recovered to end DM82.00 better at DM776.90.

Philippines

Foreign buying helped MANILA advance for the third consecutive session to finish at a five-month high. The composite index added 42.53 or 1.5 per cent at 2,873.68.

Brokers reported foreign interest in selected index heavyweights, apparently prompted by the strength of Wall Street. A number of Philippine stocks, traded in the US, reacted sympathetically to gains there.

HONG KONG saw profits taken after Monday's rise of nearly 2 per cent to a 23-month high. But the Hang Seng index, after a session's low of 10,857.23, recovered to end 1.89 points ahead at 10,957.22.

Sino Land firmed 50 cents to HK\$50 on talk of a share placement at HK\$45.00 per share. Cheung Kong climbed 75 cents to HK\$45.50 on reports that it was about to issue a covered warrant; its associate, Hutchison, gained 70 cents at HK\$49.90 as it announced plans for the global flotation in March of its UK-based Orange telecom unit.

SYDNEY was affected by weakness in base metal prices, worries about half-year corporate earnings reports, which began to spread in the month, and an uncertain political climate. Brokers said that with a federal election due by May, there was already a certain amount of electioneering under way, with some commentators forecasting that Mr Keating, the prime minister, would opt for a March poll date.

The All Ordinaries index lost 14.0 to 2,946.6 in turnover of A\$497m. A higher bullion price pushed the gold shares index up 20.2 to 2,163.7 in spite of Placer Pacific's fall of 15 cents to A\$3.05.

JAKARTA was subjected to profit-taking in the telecommunications sector but the composite index put on 2.98 at Rp5,430. Telkom slipped Rp50 to Rp3,575, with some 5.3m shares traded, and Smart, another recently good performer, shed Rp75 to Rp1,700.

KUALA LUMPUR mainly attracted interest in second-line issues as the blue chip composite index made 6.85 to 1,071.48.

Second board issues eased during the afternoon as reports circulated of possible trading restrictions. The index lost 11.84 or 2.8 per cent to 397.81, after hitting a 12-month high of 416.78 earlier in the day. Volume was 582m shares.

BOMBAY fell in late trading on reports that some brokers in Calcutta and Ahmedabad were facing payment problems. The BSE-30 index dipped below 2,900, ending 30.06 or 1 per cent at 2,895.70.

SEOUL rose on bargain hunting, the composite index climbing 6.03 to 650.83 in volume of 32.3m shares.

The financial sector was supported by foreign interest, brokers said. Korea First Bank, which was affected by Woori Construction's debt default last week, gained Won800 at Won6,550.

KARACHI was helped higher by selective interest in major issues. The KSE-100 index rose 15.16 or 1 per cent to 1,526.12.

SHANGHAI'S B index gained 1.5 per cent on speculative buying, but overall trading conditions were dull. The index rose 0.769 to 52,645 in volume of 4.3m shares worth \$1.7m.

Dealers suggested that interest would be prompted by the start of the 1995 corporate results season.

The A index put on 3.024 at 534.407 in volume of 51m shares worth Yn295.3m.

TAIPEI weakened moderately, with investor interest generally limited. The weighted index receded 30.75 to 5,008.25 as turnover set a two-month low of T\$17.2m, compared with Monday's T\$18.1m.

The electronics sector was the hardest hit, falling by 1.2 per cent on worries that the industry could slow down this year. Shipping shares encountered profit-taking after recent gains on speculation over direct links with China.

SINGAPORE saw some institutional buying, but the Straits Times Industrial index fell on profit-taking, losing 15.52 to 2,433.00. However, the broader based All Singapore index firmed 1.86 to 899.17.

Brokers said there were clear signs that foreign mutual funds had recently increased their asset allocation for Singapore, as well as for a number of other Asian markets.

Volume amounted to \$01m shares as advances outpaced declines by 226 to 116.

FT-SE Actuaries Share Indices

Table showing FT-SE Actuaries Share Indices for various countries and dates.

parent group Bouygues slipped Ffr3 to Ffr20.

ZURICH fell on interest rate fears and on the easing US dollar, the SMI index losing another 30.5 at 3,219.4. Pharma-centrals were weak, the most active stock, Roche certificates, dropping Sfr100 at Sfr8,890; and so were banks, where UBS bears lost Sfr33, or 2.5 per cent at Sfr1,291.

However, Nestlé backed the trend with a rise of Sfr18 to Sfr1,993, UBS getting a better reception here as it reaffirmed a buy recommendation on earnings forecasts rising from an estimated Sfr73.90 a share for 1995 to Sfr102.10 in 1996. Sulzer registered put on Sfr8 at Sfr780, but this was before a post-bourse progress report which talked of significantly lower profits for 1996, and better things in the current year.

MILAN went higher early on

Manila at 5-month high as Nikkei continues descent

Tokyo

Afternoon selling of high-technology stocks brought the Nikkei average back towards the 20,000 level, writes Our Markets Staff.

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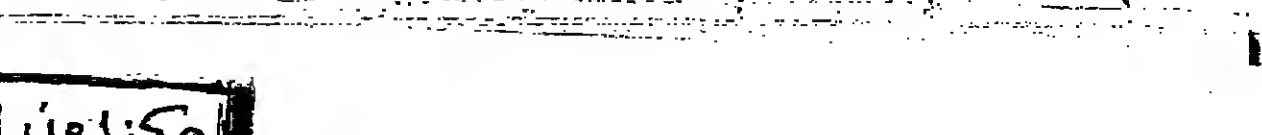
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Written and edited by William Cochrane and John Pitt

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January 1996